

JPRS-CAR-91-014
12 MARCH 1991



JPRS Report

DISTRIBUTION STATEMENT A
Approved for public release;
Distribution Unlimited

China

19980203 088

DATA QUALITY INDEX

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NATIONAL TECHNICAL INFORMATION SERVICE
SPRINGFIELD, VA. 22161

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GENERAL

Article Views Baker's Middle East Tour

HK0603074991 Hong Kong WEN WEI PO in Chinese
5 Mar 91 p 2

["Special dispatch from the United States" by WEN WEI PO Washington-based special correspondent Chu Hsing-fu (2612 1630 4395): "Challenges Facing Baker's Middle East Trip"]

[Text] Washington, 4 Mar (WEN WEI PO)—With the residual prestige from the victory of the multinational forces over Iraq, U.S. Secretary of State Baker plans to visit Saudi Arabia, Turkey, Israel, Egypt, and Syria from 5 to 15 March and also hold talks with Kuwaiti Government leaders. The purpose of Baker's visit to the Gulf and Middle East nations immediately after the war is to establish a "new world order" in the region. Baker's current trip will focus on the following four topics: Exploring the establishment of a new security system in the Gulf, seeking a possible solution to the Arab-Israeli conflict, holding consultations on economic reconstruction in the postwar Gulf region, and exercising control on the question of arms race.

Establishment of a New Security System in the Gulf

First, establishing a new security system in the Gulf region. Prior to the Iraqi invasion of Kuwait, U.S. military strength in the Gulf was limited. To prevent another war from erupting in the Gulf region, the U.S. Government intends to maintain a powerful military strength there. The leaders of the United States and some Arab nations have already held consultations on this issue. During his current trip, Baker will meet leaders of these countries to ensure further implementation of the plan. If the United States intends to station troops in the region for a long time, it will evoke opposition from some Arab nations. Senior U.S. Government officials disclosed that the U.S. military presence in the Gulf will be stepped up through the following means:

- At intervals of several months, U.S. forces of brigade size (about 4,000 troops) will be dispatched in turns to the desert of Saudi Arabia to conduct ground and air military exercises with Saudi troops.
- The regular holding of large-scale amphibious military exercises in the Arabian Peninsula in cooperation with the troops of some Arab nations.
- Stationing fighter squadrons of U.S. air units in turn in Gulf air bases.
- Maintaining an aircraft carrier in northern Arabian and Persian Gulfs and stepping up U.S. military action in the Gulf.
- Keeping large amounts of military equipment in Saudi Arabia. If a crisis erupts, armored units of U.S. ground

forces can return to station with light packs, preventing the U.S. forces from being attacked by the enemy in the early stages of the deployment.

A few days ago, U.S. Defense Secretary Cheney said that a U.S. military presence in the Gulf can stop aggressors and also offer a sense of security to U.S. friends and allies there.

Moreover, Baker will hold talks with Arab leaders on the future of Iraq and President Saddam. The United States is most concerned about assisting the Iraqi people in setting up a new pro-U.S. government which can peacefully coexist with the moderate Arab nations. According to a LOS ANGELES TIMES report, the United States is quietly carrying out a scheme aimed at staging a coup d'etat in Baghdad and not letting Saddam reestablish the country's shattered economy. The United States believes that a new pro-U.S. Iraqi Government can contain Iran in the east and resist Syria in the west. Furthermore, Baker will consult with Arab leaders on the question of dealing with the nations which stood on the wrong side in the war such as Jordan, Yemen, and the PLO. Observers here believe that a security system will last for a long time in the Middle East region if the United States is magnanimous and does not take revenge. Conversely, even if a new security system is established, it may well disintegrate along with the hatred of the Arab people.

Seek Possible Solution to Arab-Israeli Conflict

Second, seek a possible solution to the Arab-Israeli conflict. Although the PLO stood by Iraq in the Gulf crisis, the Gulf war has indeed created an opportunity for settling the Palestinian issue. Despite the fact that the United States has rejected Saddam's request to link withdrawal of Iraqi troops from Kuwait to holding a Middle East peace conference and settling the Palestinian issue, the world has reached a common understanding: There can be no lasting peace and stability in the Middle East unless the Palestinian issue is thoroughly settled. British Prime Minister Major said a few days ago that peace in the Middle East should offer security to Kuwait and other Gulf nations. Meanwhile, the question of Palestine must be dealt with. To settle the Palestinian issue, it is necessary to let the Palestinians establish their own country. Former U.S. Secretary of State Vance said, "We cannot shelve the Palestinian issue. Only the United States can play an important political role in settling the Arab-Israeli conflict." However, the United States will not necessarily win the peace in the Middle East as it has won the war. To persuade Israel not to get involved in the war, apart from offering large amounts of military and economic aid, the United States may have made some promises to Israel, that is, not to exert pressure on Israel while settling the Palestinian issue. Hence, the Israeli Government has taken a tough stand, rejecting the convocation of a Middle East peace conference as well as discussion of the Palestinian issue. The Israeli defense minister said: "Regarding the question of a Middle East peace, I do not think it is necessary for Israel to make concessions first."

While handling the Gulf crisis, Baker made four tours to the Middle East but he did not go to Israel for fear of offending the Arab nations who had joined the anti-Iraqi alliance. Baker will be in a dilemma during his current visit to Israel: He must take into consideration the interests of Israel as well as the just voices and demands of the Arab nations. Unless there is a permanent solution to the Palestinian issue, lasting peace will be out of the question.

Holding Discussions on Reconstruction of Postwar Gulf

Third, holding discussions on reconstruction of the postwar Gulf. In the Gulf war, which lasted more than 40 days, Iraq and Kuwait were the first to be affected, suffering heavy losses. During the seven-month occupation by Iraqi troops, Kuwait suffered losses of \$100 billion. It is estimated that Kuwait will need \$50-100 billion to rebuild the country in the next five years. Many U.S. companies outstripped others in taking action and obtained most of Kuwait's first 200 contracts. The Japanese, who did not shed any blood in the war, dared not take the lead for fear of being treated with disdain by other Western nations.

Prior to the eruption of the Gulf crisis, Iraq's foreign debts totaled \$70 billion. During the Gulf war, Iraq suffered losses of \$150-200 billion. If the war reparations required by Saudi Arabia and Kuwait are added, Iraq's debts will top \$300 billion. Over the years, Iraq's national income has come mainly from oil exports. Originally Iraq could turn out 3.25 million barrels of crude oil daily and its annual income totaled \$24 billion. Iraq will need at least 25 years, using half of its oil exports, to pay reparations and foreign debts. As Iraq's oil industry and economy have suffered serious destruction, however, it will be impossible for Iraq to rely on its own strength to stand up from the ruins of the war.

At last month's Congress hearing, Baker said that the United States must attack the rich to help the poor [da fu ji pin 2092 1381 3444 6302] in the Middle East, narrow the economic gap, and eradicate the roots of conflict and war. To this end, he asked the Middle East oil-producing countries to subsidize the establishment of a regional development bank so as to help the economic development of postwar Iraq and other poor Middle East countries. If this question is again raised by Baker during his current trip, it will be rejected by Saudi Arabia and other nations. Saudi Arabia has already expended \$60 billion in the war and it is now against subsidizing Jordan, Yemen, and the PLO because of their support for Iraq in the war.

The Question of Exercising Control Over the Arms Race in the Region

The question of controlling the arms race in the region. The weapons purchased by the Gulf nations in the 1980's totaled about \$300 billion. The number of tanks possessed by five Middle East nations today exceeds those of Britain or France, and there are at least five

nations which have chemical weapons. Since the eruption of the Gulf crisis, Israel, Saudi Arabia, the Arab Emirates, and Qatar have purchased arms from Britain and France. As the Gulf war has now come to an end, Baker will have to meet Arab and Israeli leaders to discuss measures for controlling the arms race and maintaining lasting peace in the region. It will not be enough to merely impose an arms embargo against Iraq, the defeated nation. Strictly controlling the quantity and variety of arms sold to the Middle East constitutes homework to be done by the United States, the Soviet Union, and West European countries.

Speculation on Foreign Relations During 1990's

91CM0226A Hong Kong MING PAO YUE KAN
[MING PAO MONTHLY] in Chinese No 301, Jan 91
pp 20-28

[Article by Pai Feng (4101 6912): "Outlook for Chinese Communist Diplomacy During the 1990's"]

[Text] Chinese Communist diplomatic activity has recently picked up once again. In August, the PRC resumed diplomatic relations with Indonesia, and established relations with Saudi Arabia. The Chinese Communists reached an accord on the Cambodia issue with the four other permanent member nations of the UN Security Council. After the outbreak of the Persian Gulf crisis, Chinese Communist diplomatic activity covered a broader area. The U.S. assistant secretary of state, the deputy premier of the Kuwait government in exile, Jordan's foreign minister, a former president of Tanzania, the Soviet foreign minister, Iraq's first deputy premier, Henry Kissinger, and Shin Kanemaru visited China at various times. In addition, Communist China and Vietnam are in the process of reconciliation; the president of Pakistan visited Beijing for the Asian Games opening ceremonies;¹ and the New Zealand minister of economics also had to go to Beijing to seek a resumption of the China-New Zealand wool trade. During December, Li Peng also visited four Asian countries.

Effects of 4 June Not Considered Serious

In the wake of the 4 June [1989] incident, Communist China was truly isolated internationally to a certain extent. With the easing of relations between the United States and the USSR, quite a few people felt that Mainland China's strategic position was very much different from what it had been. After the conference of seven European heads of state, Margaret Thatcher said that the future world will be divided into three economic zones in which the U.S. dollar, the Deutsche mark, and the Japanese yen are paramount. The new world order will be created by the United States, Europe, and Japan.² Ordinary people could not help but feel that China's political and economic position had depreciated, but the facts deny this contention.

The 4 June incident did not fatally impair China's real economic and diplomatic strength. Reduced tourism did not seriously impair the economy, inasmuch as it accounted for only 5 percent of the mainland's foreign exchange earnings to begin with.³ Even though it possesses a huge population and land area, China's foreign trade also accounts for only 2 percent of total world trade.⁴ Clearly, the mainland is still definitely not an externally oriented economy. China's industrial production has begun to revive, and the 1990 summer grain harvest was a bumper one, output reaching 99 million tons to break the 1984 all-time high record.⁵ By comparison with the same period in 1989, imports during the first six months of 1990 from the United States, Japan, France, and West Germany declined, but exports shipped to Hong Kong, West Germany, and the United States did not decrease, but rather increased. The percentage of increase was also considerable, reaching double digits. (See Table 1) Clearly, the 4 June incident did not impair China's export capabilities. At present, Japan has taken the lead in reinstating loans to China. China's shipbuilding industry has also jumped to fourth position in the world.

Table 1

Value of Imports (\$1 Million)

	First 6 Months of 1989	First 6 Months of 1990	Percent Change
Japan	5,359	3,221	-40%
United States	3,523	2,991	-15%
West Germany	1,678	1,142	-32%
France	805	609	-24%

Value of Exports (\$1 Million)

	First 6 Months of 1989	First 6 Months of 1990	Percent Change
Hong Kong	9,437	10,922	+16%
Japan	3,552	3,427	-4%
United States	1,819	2,185	+20%
West Germany	682	775	+14%

Source of Data: NEWSWEEK, 6 August 1990, p. 3

As former West German Prime Minister Helmut Schmidt said, today's world is no longer a monopoly divided between the two powers, the United States and the Soviet Union. A multiple leadership is beginning to take shape. Communist China's Foreign Minister Qian Qichen also said that a "five-part world theory" has revised Deng Xiaoping's "bipolar view." Just because the United States and the USSR have shaken hands and made up does not mean that world peace is imminent. On the contrary, the former cold war between the two superpowers really brought half a century of peace to the world. Today, the power of the United States and the USSR is diminished. No longer can they control the world pattern, and world affairs have also become more

difficult to gauge and possibly more dangerous. The present inability of the United States and the USSR to force Iraq to submit is a good example. Therefore, China's support is more indispensable! The USSR superficially declares that China can be its good partner, and Kissinger accelerates the thawing of Sino-U.S. relations. Quite a few people feel that the international contest will be primarily economic and that military action no longer fits in with the trend. However, when a country's economic power is projected abroad, powerful military forces are needed to protect vested interests. Japan is now moving ahead in this regard. With the decline of the United States and the USSR, the ambitious expansion of armies in Third World countries will be difficult to prevent. Iraq and India are good examples. Thus, the West needs China's cooperation all the more.

In the final analysis, the 4 June incident is just an internal Chinese political matter, and it has not shaken the various interest relations that China has built with the nations of the world during the past 10 years. We should not forget that foreign relations are frequently more realistic than domestic politics. Once the madness of the Great Cultural Revolution was over, did not China very quickly begin to draw closer to the West? The 4 June incident was far less serious than the Cultural Revolution. Just as the former U.S. ambassador to China said that the Cultural Revolution ultimately led to 10 years of opening to the outside world and reform, it is possible that so too will the 1989 events at Tiananmen ultimately lead to more progress in China. For a short time, the powerholders may backtrack, but in time the Chinese will understand how to draw lessons from bitter experience.⁷ Consequently, the West should pay closer attention to China and do more to encourage it to take part in international organizations. This can make the Chinese Communists formulate policies that are more responsible and that contribute more to world peace. The West must take a more active part in China's modernization plans, exercising subtle influence to help its "peaceful evolution." No society in the world goes on forever without change.

Military Power Behind Diplomacy

It is said that a "weak country lacks diplomacy." In order to achieve independence, autonomy, and attain the "dream of being a powerful country," Mao Zedong long ago lay the foundation for China to become a nuclear power. Building on this foundation, Deng Xiaoping further modernized the armed forces during the 1980's. Communist China's foreign relations during the 1990's and thereafter will also advance through reliance on past military reform achievements, and, right into the 21st century, the goal of Communist China's foreign relations will not depart from "antihegemony."⁹ Even though the hegemony of the two superpowers is on the wane, because China must remain a counterweight in East Asia to the military power of the USSR, Japan, and India, "antihegemony" has not lost its significance. During the 1980's, substantial achievements were made in China's military modernization. China established various kinds of military liaison with more than 80 countries, such as the exchange of military attache offices and mutual visits

of military officers. Many military academies, bases, and research institutes have also appeared in China, the Xichang Satellite Launch Center being one of renown. In the five-year period from 1985 to 1989, a total of 200 people in more than 20 delegations from more than 10 countries traveled to China to discuss cooperation in aerospace technology.¹⁰ Today, only China, the United States, and the USSR have a capability for accurate recovery of artificial satellites. China's "Long March" rocket can independently launch a geosynchronous stationary satellite. American companies are also happy to have China launch satellites. Although it has not yet developed a space ship, the accuracy and reliability of China's rockets is greater than that of America's space shuttle and Europe's Ariane rockets.

In 1985, Deng Xiaoping cut the armed forces by 1 million in an expression of emphasis on quality rather than on quantity. China has also made considerable progress in conventional weapons such as research and development of new antitank missiles, new tanks, armored personnel carriers, large-caliber self-propelled guns, long-range minelaying equipment, amphibious tracked carriers, heavy equipment amphibious carriers, individually laid antipersonnel mines, and rocket demolition devices. It is generally well known that China's influence on Middle Eastern countries shows up mostly in sales of military equipment. During their war, Iraq and Iran bought 70 percent of the weapons that China sold abroad. During the 1980's, Egypt bought \$7 million worth of Chinese weapons, and Libya spent \$4 million. Syria, Iran, and Pakistan are interested in China's M9 guided missile.¹¹ It was on this account that Saudi Arabia established diplomatic relations with Communist China. Therefore, the West must cooperate with China to rebuild order in the Middle East. Once the war between Iraq and Iran was over, China's sales of military equipment declined sharply. Now, in response to requests from the West, China has cut back the export of military equipment to Iraq; however, over the long term, not only can China rebuild its image, but also promote coastal petroleum exploration because of new crises in the Middle East.¹² (See Table 2) Should the world situation become more unstable during the 1990's, China's munitions business and its diplomatic offensive will also have greater room for maneuver.

Table 2. International Munitions Business (\$1 Million)

	1988	1989	Rate of Change
USSR	14.7	11.2	-21%
United States	9.3	7.7	-14.4%
U.K.	5.2	3.2	-36%
France	2.4	1.1	-52%

Source of Data: NEWSWEEK, 2 July 1990, p. 3

Sino-U.S. Relations: Need To Continue Cooperation

The 4 June incident and the tremendous changes in Eastern Europe have made many Americans feel that

China is no longer important.¹⁴ Some have even suggested the strengthening of relations with Taiwan. Early on, the United States planned to eliminate China's influence on the Cambodia issue, declaring that it no longer recognized the legality of the tripartite coalition against Vietnam. In the end, this failed, however. As Richard Nixon said, Sino-U.S. relations cannot rest solely on the Soviet threat. At the least, since China is a nuclear power, the United States should regularly cooperate with it to prevent the accidental outbreak of nuclear war. However, in the final analysis, Sino-U.S. relations will be determined to a very large extent by the attitude of U.S. business. Although only 5 percent of U.S. imports come from China and U.S. trade with Taiwan is 10 times Sino-U.S. trade, nevertheless, the China mainland is an important market for the U.S. timber, agriculture, and aircraft engineering industries. China is also very important to some U.S. states such as Washington. Kentucky Fried Chicken is also very popular in Beijing. The U.S. Congress also extended China's most-favored-nation trade status because of the benefits of business and trade. China was the country whose economic growth rate was highest and fastest during the 1980's. It is estimated that China's per capita income will reach \$875 per year by the year 2000. During the 21st century, the Asian-Pacific Region will be the most lively area in the global economy, so much so that Australia will have to "part with Europe to enter Asia" to enjoy the prosperity. How then can the United States turn a blind eye? Since China is the largest country in Asia, its attraction is not just imaginary.

Sino-U.S. political and military relations are limited by certain factors such as the lack of a military alliance between the two, dissimilar revolutionary experiences, and lack of mutual long-range goals. Then there is also the Taiwan issue. In addition, most cadres over 40 in positions of authority in China, as well as future successors, have studied in the USSR. The United States worries about their psychology being different from its own; thus, it pays extremely serious attention to the future influence on China of those Chinese students who have studied in the United States. As of 1988, a total of 30,000 mainland students had studied in the United States.¹⁵ The United States is also taking an active part in China's energy industry, electronics industry, agriculture, and communications and transportation projects with the hope of laying a foundation for long-range mutual reliance and trust between the United States and China. Moreover, China and the United States have no territorial disputes. Prospects are good for their cooperation in hot spots on the Korean peninsula, in Cambodia, and in the Middle East. Communist China's internal power struggles have also never changed China's basic foreign policy of independence and sovereignty. Therefore, the USSR, which is in turmoil, its economy on the verge of bankruptcy, and threatened with splitting apart, but which is still militarily extremely powerful, is still a good partner in cooperation with China. The United States encourages Japan to increase its military expenditures on the one hand while envying Japan's

wealth and worrying about its potential expansionist ambitions on the other. Thus, China can lend the United States a helping hand in maintaining the balance of power in the Asian-Pacific region.

There are several requirements for being a superpower, as follows: Leadership in high technology, a favorable balance of trade, powerful armed forces, and huge economic assistance to Third World countries,¹⁸ but the United States is losing these requirements. The United States must cooperate with China to maintain influence in East Asia. U.S. investment in China as of 1989 totaled \$3.5 billion, second only to Hong Kong. The United States must continue to make efforts toward China's modernization, and it cannot keep all mainland students studying in the United States for its own use, because this will worsen China's outflow of talent, and damage Sino-U.S. relations. In short, the isolation of China from the United States has numerous disadvantages and not one advantage. The United States must squarely face China whose Army is the second largest in the world.

Sino-Soviet Relations: Guided by Economics

I believe that Sino-Soviet cooperation during the 1990's will be primarily economic. Although the USSR is improving MiG-19 and MiG-21 fighter planes for China, political and military cooperation between the two will not be as close as between China and the United States. The reasons are two: First, the USSR is a direct threat to China; it is China's biggest hypothetical enemy, and it has bullied China since tsarist times. Psychologically, China finds trusting the USSR difficult. Second, Communist China's leaders do not approve of Gorbachev's reforms.

China and the USSR are strongly complementary economically. Since the USSR lacks consumer goods and China is experiencing slack sales in this regard, China can sell textiles, soybeans, fruits, vegetables, and electrical appliances to the USSR. In turn, the USSR can export firewood, coal, and machinery to China.¹⁹ Actually, China is the USSR's second-largest trading partner in Asia, and the USSR is China's fifth-largest trading partner. A trade volume of \$3 billion for two countries with their population is truly too little; however the potential for development is unlimited. The decision of the 27th Congress of the CPSU to strive to develop Siberia was not only for the purpose of changing the serious imbalance between east and west in the country, but was also to follow the shift in the world's economy toward the Asian-Pacific region during the next century. Currently, the population in the eastern part of the USSR is insufficient, so labor has to be imported. In 1988, more than 400 Chinese crossed the Heilong Jiang into the USSR to fell timber, pave roads, and work in agriculture.²⁰ So long as the turmoil in East Europe continues, it is only natural that the USSR will select a more stable Japan, South Korea, and China, as well as Taiwan for cooperation. Gorbachev has also declared the USSR to be an "Asian-Pacific region country," and he plans to open the military port at Vladivostok and to

join both the Pacific Economic Cooperation Conference and the Asian Development Bank. In the development of a commodity economy, China's 10 years of experience in reform are no doubt attractive. The Soviet Union's development of the eastern part of the country also benefits China's policy of complete opening to the outside world inasmuch as Communist China is currently considering rebuilding greater Shanghai as well as increasing the vitality of the north China economy. Communist China's leaders cannot allow Xiamen, Zhuhai, Shantou, and Shenzhen in the south to be the only places to be beautified. Although there are only several hundred Chinese students in the USSR, far from the 30,000 studying in the United States, exchanges are to be increased during the 1990's. The number of people from the USSR and Eastern Europe going to China to "borrow experience" will continue to increase. The USSR's 20-percent reduction in its Pacific fleet, the 30-percent reduction in its land forces stationed in the Far East, its destruction of intermediate-range missiles, and its withdrawal from Mongolia, plus the disintegration of the country and its economic bankruptcy have greatly reduced its threat to China. Although the USSR still holds the Cam Ranh Bay naval base in South Vietnam, the fate of the base is rather clouded as a result of the increasing seeming harmony but actual estrangement between the USSR and Vietnam. The greatest divergence remaining between China and the USSR today seems to be the question of Eastern Europe, but this does not directly threaten China's existence.

Today both China and the USSR are actively developing relations with Korea. Specifically, the USSR and Korea are preparing to establish diplomatic relations. Both countries want South Korean capital, and its relatively cheap science and technology transfers. North Korea, by contrast, has become a stumbling block to China's and the USSR's efforts to get science and technology from the noncommunist world. Actually, now that the world is forming many transnational regional economic spheres, Siberia in the USSR, the three northeastern provinces of China, and the Korean peninsula have great prospects for forming an East Asian economic sphere. Regrettably, Communist China cannot recognize South Korea, because to do so would create two Koreas, which would be a slap in the face for China's own "one China" policy. Both Beijing and Seoul have agreed that everyone should "talk less and do more."

In addition to the Korean peninsula, both China and the USSR have recently had similar leading roles to play in the Indochina peninsula and in the Middle East. The USSR long ago withdrew support for Vietnam's expansion. For example, when China's Navy seriously damaged South Vietnam's Navy in 1988, the USSR paid no attention.²¹ With the easing of tensions between the United States and the USSR, and the flourishing of the Asian-Pacific economic zone, the USSR has also cooled toward India.²² The foregoing facts force Vietnam and India to be concerned about improving relations with China. China and the USSR are also working together on

the Middle East crisis. Both countries have sacrificed some vested interests in issuing sanctions against Iraq; however, both fear establishment of U.S. hegemony in the Middle East. No wonder that the Soviet foreign minister spoke glowingly about China being the finest cooperative partner. It is predicted that both China and the Soviet Union will consider jointly pressing for a partial withdrawal of forces from South Korea to ease the situation on the Korean peninsula.²³

Even so, it is believed that no matter what, Sino-Soviet cooperation during the 1990's will not be as close as Sino-U.S. cooperation during the 1980's. Some people fear that while the USSR is weak, China may demand the return of Mongolia and a large piece of Siberian territory. China's leaders have criticized Gorbachev for "selling out communism," condemned the USSR for considering making an opening to Taiwan, shown dissatisfaction with Moscow Mayor Popov for paying a visit to Wuer Kaixi [0710 1422 7030 1585], and are apprehensive lest the minority separatist movement in the USSR spill over into China. Finally, most serious is that, should the USSR's peaceful reform fail, it might again employ military expansion to divert the people's attention and to plunder other countries' wealth. Thus, neither China nor the West dares place too many chips on the present Soviet leadership.

Sino-Japanese Relations: Both Friction and a Desire for Cooperation

China and Japan are the two most important countries in Asia. The modern history of the two countries is the modern history of East Asia. Since the establishment of diplomatic relations in 1972, there have been both cooperation and friction between the two countries. With the waning of U.S. power and Japan's desire to become a "political power," it is anticipated that during the early 1990's Japan and China will cooperate as in the past, but competition will very conspicuous.

Cooperative relations between China and Japan will be manifested mostly in bilateral trade, loans, and economic assistance. In 1988, for example, Japan agreed to provide China with a total of 850 billion yen in credit beginning April 1991.²⁴ However, Japan is not too keen on investing heavily in China. (In 1989, Japanese investment in Indonesia, Singapore, Thailand, and Malaysia was greater than in China). Japan is also quite cautious about technology transfers to China because it fears that China might become its competitor. Nevertheless, in order to main economic growth, Japan will have to bend efforts to get along with China during the 1990's.

Japan accounts for 20 percent of China's foreign trade. The volume of Japan's trade with China is four times the volume of Japan's trade with the USSR.²⁵ Even so, trade relations between Japan and China are filled with contradictions.

Japanese assistance to China is used to improve transportation, communications, ocean shipping, and electro-mechanical industries. Nevertheless, the contribution is

not great, and grants (that is, uncompensated assistance) account for only approximately 5 percent of Japan's economic assistance to China; the remaining 95 percent is long-term interest-bearing loans, the percentage of private loans being greater than government loans.²⁶ Currently, China's foreign debt totals \$40 billion,²⁷ a substantial portion of which is to Japan. Should China have an economic crisis as a result of its foreign debt, it is feared that Chinese might shift the blame to Japan just as Iraq shifted the blame to Kuwait. Following the 4 June incident, large numbers of Chinese escaped to Japan, causing the extremely xenophobic Japanese to despise the Chinese refugees. Like the United States, Japan feels that China's position in the wake of 4 June has weakened. It attempted to exclude China from a future East Asian economic sphere, but failed in the end. Not long ago, Japan revived loans to China before other Western countries. Japan's support for Hong Kong can also earn the appreciation of Communist China.

As of 1989, Japan's assets abroad totaled more than 100 million trillion yen in value. Since its economic strength was second only to that of the United States, as of the end of the 1980's, its foreign policy aimed at gradually making Japan a political power, emphasizing political results and abandoning the United States—Japan alliance as the cornerstone of traditional foreign relations. In view of its advanced electronics industry, for Japan to update its armed forces would be truly as easy as falling off a log. This was one of the foundations for the "Yamato spirit" thesis espoused by Ikutaro Shimizu.²⁸

In 1988, Japan's military expenditures were second only to those of the United States and the USSR.²⁹ Military expenditures of approximately \$30 billion in 1989 amounted to 1.7 percent of Japan's gross national product. In 1982, Japan was already responsible for a 1,000-li defense perimeter around Japan. In 1985, Japan began preparations for building a navy and an air force. The United States has consistently pressured Japan to spend 3 percent of its GNP on military expenditures. It is estimated that Japan will have 300 fighter aircraft by 1990, a number equal in percentage terms to the number that the United States has for the protection of its own territory, as well as 60 destroyers. Since Japan lacks natural resources, maintenance of its material supply lines is extremely important. Like Western countries, Japan has to ensure a regular supply of Middle East oil. The Persian Gulf crisis seems to have convinced Japan of the need to enlarge its armed forces. But how will China regard Japan's expansion of its armed forces?

Japan's Navy ranks after the United States, the USSR, the United Kingdom, France, and Communist China in size, but the quality of its warships is far greater than that of Communist China. Japan also trails the United States, the USSR, and Germany in numbers of tanks. It is also actively developing armed helicopters, and the 125 U.S.-manufactured F-15 fighter planes it has are the best in Asia. The pressure on China has become greater and greater, and the foreign ministers of all the ASEAN nations also agree that "Japan is a threat."³⁰ Not only

does Japan possess conditions for an expansion of its armed forces, but it is also able to project its economic strength abroad to get a firm grip on the economic pulse of all the countries of Southeast Asia. Scholars have found that although the majority of Japanese love peace, a minority who have not learned the lessons of history are finding pretexts everywhere for breaking "taboos," and are planning to build a "military power."³¹ Even though Communist China is alarmed at this, it is helpless to act. It can only propose "joint development of the Diaoyutai archipelago."

China has always declared sovereignty over the Nansha [Spratly] and Xisha [Paracel] Islands, and in 1988 it damaged a Vietnamese naval vessel in this connection. Not only did this frighten the ASEAN nations, but it also aroused vigilance in Japan. Japan fears that Chinese activity in the South China Sea may someday threaten the supply of materials to Japan. In recent years, Japan and the USSR have made contact. For example, Japan has made a \$2.5 billion loan to the USSR, and has become the USSR's primary trading partner in Asia. Japan's goal is not only the return of the four northern islands, but also to restrain China. No wonder that Deng Xiaoping said that, in essence, Sino-Japanese and Sino-Soviet relations have not changed greatly, that is, strategically they are premised largely on economics. China also fears that Japan may gradually gain economic control over the countries of East Asia, and encircle China. China must avoid economic dependence on Japan.

China's and Japan's positions with regard to the Korean peninsula and Taiwan differ. Japan fears a united and prosperous Korea, and China hopes for the early peaceful unification of Korea. The Koreans, both north and south, hate Japan. Conversely, they have no feelings of enmity toward China, but rather a sense of kinship. During the Asian Games in Beijing, South Korea tried hard to give support; Communist China has a tacit understanding not to block South Korea's independent application to enter the United Nations; Communist China hopes for earliest unification of Korea and Germany as models for pressuring Taiwan and to use their unification as a blueprint for Taiwan unification with the mainland. On the other hand, Japan fears a powerful and united China. A combination of China, Hong Kong, and Taiwan provides a large combination of resources, human talent, and capital. Communist China's leaders have recently urged Shin Kanemaru and other pro-Taiwan Japanese not to interfere with the unification of China.

Communist China's leaders do not oppose a modest expansion of Japan's armed forces, but ordinary people and scholars in China frequently attack Japan for a "resurgence of militarism." By way of putting an end to such attacks, both Minoru Takenouchi and Atsushi Shima have suggested that the Japanese Government pay a one-time war indemnity of \$100 billion to China,³² after which neither will owe the other anything, and China will have no moral reason for condemning Japan's expansion of its armed forces. Whether Communist

China might accept this proposal is unknown. Will Japan take the militarist power road or even become a nuclear power? Actually, most Japanese oppose revising the Constitution, oppose military intervention abroad, and actively oppose nuclearization of the armed forces. Moreover, so long as Japan continues to subordinate itself to the United States in military matters, it seems there will be no competition between China and Japan in military preparations. Therefore, conflicts between China and Japan are, to a very large extent, historical and psychological. In view of the gradual closing of the trade door by the United States and Europe, during the coming century Japan will have to establish a relationship of more trust with Communist China in order to consolidate their positions, but without any mutual submission to each other.

Sino-Indian Relations: Efforts To Seek Understanding

Just when China, the United States, and the USSR were in the process of making vigorous cutbacks in their armed forces during the 1980's, India, the big country of South Asia, was quietly building its armed forces to become the fourth military power in the world. India's military expenditures in 1990 amounted to \$9.5 billion,³³ which is 16 percent of all government expenditures. India is now able to manufacture atomic bombs and the plutonium needed for them. It has also developed "Vulcan" [as published] intermediate-range missiles with a range sufficient to reach China. India is also able to launch artificial satellites with fourth-generation launch vehicles. Its Navy also ranks seventh in the world in terms of total troop strength. It has high-performance ships, two-thirds of which have been imported from the USSR. India has also purchased dogfight missiles, air-to-ground missiles, and light helicopters. Its air transport capacity is third in the world, and the quality of its aircraft is superior to that of China. Over a period of 10 years, India's military expenditures have increased four-and-a-half-fold for the unfolding of a grand plan. Nevertheless, China's nuclear weapons and its overall military capabilities remain out in front. For the time being, India is unable to compete with China in Southeast Asia; however, Sino-Indian conflicts continue with regard to territory.

Territorial disputes have constantly existed between China and India, accounting for the outbreak of warfare in 1962. Controversy between the two about the McMahon Line and Aksai Chin sovereignty continue to this day. Even though China is willing to give up territory in the east in exchange for sovereignty over territory in the west, India continues to want both. Currently, 90 nuclear missiles in Tibet are aimed toward India. The atmosphere may be said to be portentous.³⁴ With the waning of the USSR in the Indian Ocean, New Delhi is gradually welcoming the U.S. Navy in the region to curb China.

The Tibetan question is also a longstanding difficulty in Sino-Indian relations. India long ago acknowledged Tibet to be Chinese territory,³⁵ and has not interfered in

Communist Chinese affairs in Tibet. However, since India stands for Western freedom and democracy, it wants to shelter exiled anticommunists from Tibet. This has become a cause for Communist China's condemnation of India. Nevertheless, development of the Tibetan independence movement so far shows no hope of success. The Tibetan question as an obstacle to conciliation between China and India is in process of diminishing.

The issue that makes China most wary is India's ambition to hold sway in Southeast Asia. India's arms expansion was discussed earlier. Scholars note that India is currently pursuing a "South Asia principle," meaning that any country in the South Asia region that encounters domestic or foreign relations problems must seek India's help; it can have no other choice. Naturally, this arouses the repugnance of countries like Nepal and Sri Lanka. After the Singh government came to power in November 1989, it also called for a nuclear program for building the armed forces. China and its firm ally, Pakistan, are extremely vigilant about this. The easing of relations between the United States and the USSR put pressure on India to abandon its past action of forming no alliances; and the easing of relations between China and the USSR also forces India to deal alone with dual pressures from China and Pakistan.

The extreme possibility of a challenge to India during Pakistan's current domestic unrest in order to divert the attention of its own people increases the possibility that war may break out in South Asia. In order to maintain world peace, China will have to try to channel the enmity between India and Pakistan during the 1990's. For New Delhi, China's cooperation is essential. This channeling is a goal for which India will have to strive for Sino-Indian understanding during coming years, and it is a thankless role that both China and India will have to play in the future. Conflicts between Third World countries are frequently rather difficult to mollify because their economies are not mutually complementary, and because of the existence of conflicts for religious, racial, and other reasons.

China and Southeast Asia: Hesitation, Suspicion, and Jealousy

During the 1980's, China made diplomatic progress with every country of Southeast Asia except Vietnam. First of all, Communist China's halt to the export of revolution allowed the ASEAN countries to put down a big worry. Communist China's efforts to contain Vietnam's expansion were particularly well received. The military cooperation between China and Thailand posed even fewer difficulties. Communist China also helped bring about a complete reconciliation between the Malaysian Government and the Malaysian Communists. More than 70 percent of China's foreign trade was conducted in the Asian-Pacific region. China and the neighboring countries of Southeast Asia both compete with and complement each other economically. For example, China is already the best customer for Malaysian palm oil and rubber.³⁶ At the same time, they compete for Western

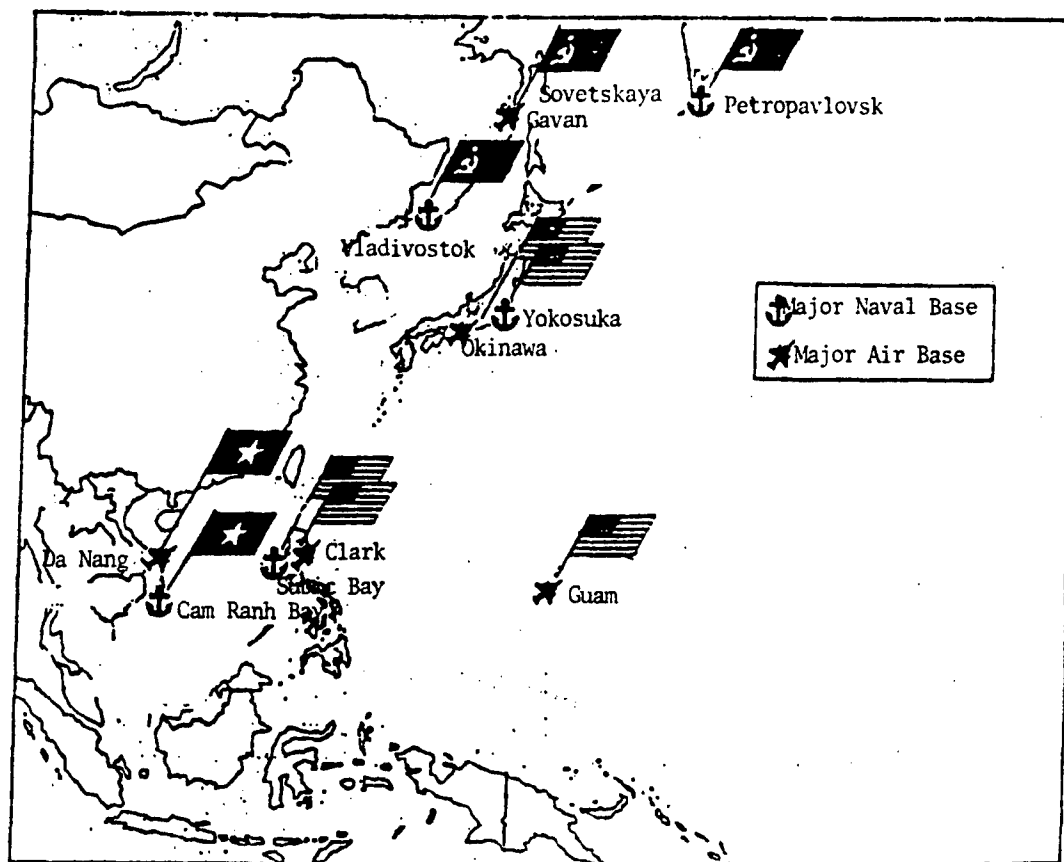
economic assistance, and much of what they both produce are similar primary products. At the beginning of the 1990's, Indonesia took the initiative in reestablishing relations with China, and Singapore followed. Vietnam used various circumstances in an effort to reach a complete accord with Communist China. Even so, quite a few disadvantageous variables may exist in Communist China's diplomacy in Southeast Asia during the 1990's.

As was said earlier, sovereignty over the Nansha and Xisha Islands continues to be a major dispute among China, the Philippines, Vietnam, and Malaysia. Communist China's military activities in the South China Sea, particularly the Sino-Vietnamese naval war of 1988, frightened the ASEAN countries. With the U.S. withdrawal from the Philippines and the USSR's departure from Vietnam, who will fill the power vacuum in the South China Sea? The Philippines is politically unstable. Should something happen there, who would restore order? The ASEAN countries hope that China and Japan will jointly share responsibility and curb each other. They are fearful lest China reestablish its hegemony over East Asia.

Southeast Asian countries made up primarily of Malayan peoples have long held a grudge against China and the large numbers of Overseas Chinese dispersed among them in various places. At a time when the world is dividing up into multiple economic zones, such as the recent suggestion for the formation of a "triangular alliance" among Singapore, Johor State in Malaysia, and the Riau Islands in Indonesia, and the formation of an alliance among Hanoi, Rangoon, and Bangkok, the China mainland dares not propose establishment of a "Greater China economic sphere," or a "Chinese economic sphere," or a "South Asian economic sphere." It does not want to incite the neighboring Malaysians, and it wants to avoid placing Singapore and the large numbers of Overseas Chinese in a predicament. Since Overseas Chinese already control the economies of ASEAN countries to a very great extent, any unwise move by Communist China might stir up a new tide of anti-Chinese sentiment as well as cause a falling out with China. One of the reasons for the 1979 Sino-Vietnamese war was Vietnamese Communist persecution of the Chinese. That Malaysia has liberalized the travel of Chinese to the China mainland marks a major breakthrough.

Each of the countries of Southeast Asia keeps close watch on the trend of development of Chinese nationalism. With the steadily strengthening Mainland China economic and military strength, its nationalism will naturally increase. Beijing's political goal in holding the Asian Games was to rally the nationalism of the people in the hope of coalescing strength to impel China's advance. Furthermore, communism has lost its magic and the old revolutionaries will quickly depart the political stage. In order to continue to survive and maintain its ruling position, Communist China will have to promote nationalism.³⁷ The Malays of Southeast Asia fear

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that Chinese nationalism will ultimately escalate into imperialism that threatens their independence. Indonesia's present styling of China as "Shina" [a deprecatory term used in prewar Japan] reflects the continued hostility toward Chinese of the Malays. For the countries of Southeast Asia, China is a huge animal whose favor must be curried, but which is also dangerous. Communist Chinese support for the unjust Khmer Rouge deserves to be discussed.

Future relations between China and the countries of Southeast Asia may be cooperation carried out in the midst of hesitation, suspicion, and jealousy.

Western Europe: Development of Economic and Trade Relations

In view of their geographic separation, China has no great political and strategic relationship with the countries of Europe. Even though Communist China revived "party ties" to all communist parties in Eastern Europe, overall, European countries both east and west are interested only in China's markets and resources, and China also wants to develop economic and trade relations with Western Europe. This is because China does not want to incline toward Japan, and Western Europe is also more liberal

about technology transfers. Relations between West Germany and China are particularly harmonious.

China admires West Germany's great wealth and sophisticated science and technology, and it even more admires West Germany's long non-interference in the internal affairs of other countries. At the time of the 4 June incident, West Germany never publicly condemned Communist China. In order to reduce reliance on Japan, China has strengthened economic and trade cooperation with European countries ever since 1986. Sino-German trade amounts to \$4 billion, an amount greater than Sino-Soviet trade. West Germany accounts for 25 percent of all imports from Europe, and 16 percent of China's exports to Europe are to Germany.³⁹ In view of the good showing of the Germans, in 1987 Communist China's leaders even invited Helmut Kohl to visit the still unstable Tibet, allowing him to make an on-the-spot survey of local human rights. Mostly China purchases industrial products and raw materials from Western Europe. Although West European investment in China is not as great as that of Hong Kong, the United States, and Japan, conditions are more liberal and the number of industries affected is also somewhat broader, such as the paper manufacturing, food-stuff, publishing, hotel, pharmaceutical, machinery, and fishing industries.

German unification is a mixture of good and bad for Communist China. On the one hand, Germany can help Communist China create impetus for pressuring the Kuomintang to concur in the need for unification and to come to the negotiating table. German unification can also serve as reference for Communist China. Nevertheless, on the other hand, German unification was actually the "buying out" by prosperous West Germany of impoverished East Germany. It was ironclad proof of the superiority of capitalism over socialism, which was very much not to the liking of Communist China. Nevertheless, both West Germany and East Germany were friends of Communist China. They respected each other and they did not interfere in each other's domestic affairs; thus, it is believed that China will continue according to plan to increase the number of students in Germany, and to increase exchanges in the fields of science and technology, literature, and art.

Among the countries of Western Europe, the United Kingdom and Portugal will tussle with China frequently during the 1990's, the reason being, naturally, arrangements for the transition of Hong Kong and Macao.

In 1992, when the countries of Western Europe form a unified market, their economic strength will quickly increase. During the 1990's, China will have to redouble attention to economic, trade, cultural, and educational cooperation with them.

Eastern Europe: Careful Watching With Maintenance of Contacts

The tremendous changes in eastern Europe during 1990 meant that Communist China's efforts during the 1980's to revive relations with communist parties in all the countries of that area were wasted. Even more, the changes alarmed Communist China, which hurried to form an alliance with Hanoi, Pyongyang, and Havana to oppose "bourgeois liberalization." However, the reality behind the facts was not as simple as a "victory for Western democracy." Following the tremendous changes, Eastern Europe would not necessarily be prosperous, free, and peaceful. The exigencies of 1990 were actually a movement in which the people of Eastern Europe opposed the USSR and its system. It was less the winning of Western-style democracy than the winning of national self-determination. Within and between the countries of Eastern Europe, numerous national and territorial disputes exist, which were partial reasons for two world wars. The Western economic assistance that the people of Western Europe expected following the tremendous changes has not been forthcoming. The withdrawal of Soviet forces caused a loss of control over the situation in the area, and German unification may destroy the past balance of power, increasing apprehensions. Various situations occasion numerous misgivings about Eastern Europe. Eastern Europe's instability makes the world situation unstable. Communist China is apprehensive about this; regrettably, China's reach is not long enough to influence events.⁴⁰ Without a peaceful international environment, China can forget about continued economic modernization and reduction in the size of its armed

forces. China's diplomatic attitude toward Eastern Europe during the 1990's may be one of "watchfulness" and "carefulness," maintaining only slight cultural and trade contacts.

Conclusion

"Diplomacy is an extension of domestic affairs." Foreign policy is frequently revised on the basis of domestic requirements. During the 1990's and on into the 21st century, Communist China will have to continue its four modernizations plans, continue opening to the outside world and reform, permit Sino-foreign cooperation as in the past, and explore development of joint Chinese and foreign interests. This is the only way in which China's diplomacy can be smooth and peaceful. For reform to continue, Communist China will have to overcome weaknesses on the mainland itself, such as the lack of separation between party and government, corruption and crime, price disorder, currency inflation, and inadequate basic facilities. Only then will the government and people of other countries be happy to associate with it. Today, Mainland China is still largely an economic system of self-supply and self-sufficiency. Foreign trade and economic assistance are still a long way from being able to control the country's pulse.⁴¹ So long as the country's independence and sovereignty are not impaired, China can expand its cooperation with foreign countries in many regards.

Looking ahead to the 1990's, a multipolarization is taking shape in the world as a result of the gradual decline of the United States and the USSR. At the same time, numerous unforeseeable clashes may occur against which the West feels powerless. An example is the Iraq situation. As an East Asian country, during this stormy period China must both continue to develop Sino-foreign cultural and economic cooperation, and also rely on its armed forces for the maintenance of peace in the region. China must reduce its suspicion and jealousy of Japan and India and work sincerely with them. It must also strive to soothe the countries of Southeast Asia. China must also deal with the two superpowers on the basis of forbearance and compromise. It must particularly help the Soviet Union's economic reform in order to give indirect support to the USSR reform faction in the continued promotion of a peaceful foreign policy.

The old world order is collapsing, but the new order has not yet completely taken shape. During this unsettled period, China must set a new international orientation for itself.

Footnotes

[footnote numbers as published]

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- Uncertainties Seen in Changing World Order**
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in Chinese No 52, 24 Dec 90 pp 40-41
- [Article by Yao Yun (1202 0061): "Changes in the International Situation in Relation to the Change in World Order"]

[Excerpt] [passage omitted] **2. Accelerated Changes in the World Order**

In 1990, developments in the international situation clearly indicate that the change in world order is accelerating:

The Yalta order has disintegrated. The Yalta order, set up at the end of World War II, was actually a delimitation of U.S.-Soviet spheres of influence, in that the two large camps, headed by the United States and the Soviet Union, faced each other in confrontation and established an equilibrium between each other. Victory of the revolution in China, the Sino-Soviet split of the 1960's, Yugoslavia's deserting the Soviet bloc, the advent of national independence in various colonies and dependent countries, all these events had already shattered the Yalta order, but Europe, on the other hand, had all along clung to the original postwar pattern. Now, that East Europe has quit the Soviet camp, Soviet Union has been weakened and shrunk, and Germany has achieved reunification, the balance of power in Europe has greatly changed. When the heads of state of the European Security Council met in November of this year they actually proclaimed the demise of the Yalta order.

The world's move toward multipolarization is accelerating. Gone is the time when the two superpowers, the United States and the Soviet Union, were the two centers that dominated the world. Following the dramatic decline of the Soviet Union, the down-sliding of the United States, the abrupt rise of Germany and Japan, and the vigorous development in China, the global situation hereafter will be one of multipolarization among equally matched parties. It is true, though, that the United States will, for a certain time, maintain a distinct superiority. Moreover, with the dramatic decline of the Soviet Union, which actually has already left it bereft of superpower status, the role and influence of the United States may still for a time regain renewed prominence in global affairs, as, for instance, in the present Gulf crisis. However, the gradual and relative weakening of U.S. strength and status is an undeniable fact. Scholars have explored the meaning of "pole" as in "polarization," and it seems it has to be a power center with very substantial economic, political, and military strength and also one of great influence in global affairs. Some force which may not fulfill all of the above conditions, but which can play a similarly decisive role in the world, may still constitute one of the "poles" within multipolarization. The future world will have several "poles," and whether the Third World will constitute another "pole" is still being argued by scholars. However, the change from dual polarization to multipolarization in the world, with mutual competition and mutual restraints, is already apparent as the prevailing overall trend.

International relations are in the process of undergoing large changes of profound significance. As the Soviet Union is continuously making important concessions, relations between the United States and the Soviet

Union have relaxed, and in certain directions the two countries are seeking agreement and cooperation. While both sides in the German-Soviet relationship remain on guard against each other, there is also a tendency to harmonize mutual views and benefit from each other. The attitude of the United States and West Europe toward the changes in the Soviet Union is, on the one hand, one of encouragement and support, but also one of anxiety about future developments; it is therefore a very delicate relationship. The various countries of the European Community are all in need of support from a strong Germany, but are also keeping a wary eye on Germany, which is particularly evident in the case of France and Britain. Under the new conditions, U.S. relations with West Europe must be redefined; on the one hand, both sides need cooperation, but both are also contending for a leadership role. All these various circumstances manifest the great complexity of the new developments in international relations. In Asia, a possible adjustment in Soviet-Japanese relations, changes in Soviet relations with the two Koreas, and the general development and improvement of relations between China and all its neighboring countries, are also events that have everyone's attention.

There is now occurring, or about to occur, a change in the alignment of international forces. The disintegration of the Soviet bloc and East Germany merging into West Germany are two events that have brought about a great change in the composition of forces in Europe. We see in Europe the advent of certain new alignments, such as Germany drawing closer to some countries in Eastern and Central Europe, Italy planning the development of cooperation in a five-country conference with Central and South European countries (with Austria, Hungary, Yugoslavia, and Czechoslovakia). There are also many other schemes, such as establishing a relationship between the countries of the Mediterranean and among countries of the Latin language group. Even more important alignments of forces may still be in the offing. In the Middle East, the Gulf crisis has led to a new split in the Arab world, and changes have occurred in the alignment of the various Arab countries.

In world affairs, changes are occurring in the structure of international relations that had played a leading role in the past, while the great powers are now seeking to establish a new security system and are intriguing against each other to achieve this. In the new global situation, the United States still tries to maintain its hegemony, but its ability falls short of its wishes, and it also needs support from other forces. There are, therefore, schemes for a U.S.-Europe-Japan core to control global affairs, or even for a "triangular model" in which the United States, Germany, and Japan would play the leading roles. The seven-power heads of state conferences are more and more becoming an organ for the discussion and planning of intervention in the world's economic and political affairs, which is a concrete manifestation of the said tendency. On the issue of establishing a new security order in Europe, there are now different proposals as the

various countries, the Soviet Union, the United States, Germany, France, and Britain, all start out from their own interests in the matter. In essence, this is also a struggle of the United States and the large European countries for the leading position in Europe and for strategic interests. As the heads of state of the European Security Council have not and cannot resolve this problem, the struggle will go on.

The above-mentioned developments make it clear that during the time of changes in the global order, the international situation is bound to be turbulent and unstable.

3. Factors of Uncertainty

The present is a transitional phase in which the new world order is replacing the old world order. The old order is in the process of disintegrating, and the new order is still in the process of being shaped. What the world's future will look like is presently difficult to assess with certainty, because of the many factors of uncertainty that still exist. First, there is the Soviet Union: Can the Soviet Union possibly continue to enforce its present political line and policy? Will the Soviet Union be able to overcome its present economic, political, ethnic, and social crises; what will the solutions be? What about its present leadership? What direction will the Soviet Union take in future? People ask these questions and seek answers to them.

Second, how will Germany develop in future? Germany may now assume a low profile, but after it has fully absorbed East Germany and further strengthened its powerful wings, what will happen then? Will we then have a "European Germany" or a "German Europe"?

Third is Japan, which is at present second in the world in economic strength, and which is now energetically striving to become one of the great political powers. What arouses even more concern: Will it also become one of the great military powers? What is the future of Japan's relations with the United States, the Soviet Union, Europe, and China? What changes and developments will occur in Japan's economic policy and its Asian-Pacific policy?

Fourth is East Europe, which, after having changed course, is now embarking on a new course full of hardship and difficulties; what will the future be for these countries?

Fifth are the developments at new and old hot spots and in regional clashes. What will the outcome be, what will their impact be? For instance, in the present Gulf crisis, fighting and prospects cannot yet be foretold, but regardless of outcome, all these events will have a significant impact on world economy and world politics.

It is necessary to soberly and calmly observe and study all these factors of uncertainty and the problems they entail, as it will only then be possible to get some clear idea about the future situation and order in the world.

In our study of the world's situation and order we must proceed on the basis of dialectic materialism and must start out with an analysis of the fundamental contradictions in the world. This writer believes the following to be the fundamental contradictions that presently exist in the world: the contradiction between socialism and capitalism in social systems and ideologies; the contradiction between the various great powers in their economic and political interests and in their global strategic competition; contradictions between the developing and the developed countries as manifested in North-South relations; the conflict of interests between nationality states and between ethnic groups; and the class contradictions within the various countries. Which of these contradictions will emerge as the major contradiction at a certain time is a variable that will change according to developmental changes in the various contradictions. Only by analyzing and familiarizing ourselves with the fundamental contradictions and the major contradictions will we be able to grasp the course of future world developments.

Examination of South Commission Development Report

91CM0208A Beijing LIAOWANG [OUTLOOK]
in Chinese No 51, 17 Dec 90 pp 40-41

[By Chen Qida (7115 0796 6671): "Report on Serving the South"]

[Text] In August 1990, the South Commission, the influential Third World organization chaired by Julius Nyerere, issued *The Challenge to the South*, a 325-page report that took three years to write. It has now been delivered to leaders of the various countries of the world and to concerned organizations.

In writing the report, the South Commission held more than 20 conferences of specialists and called on specialists and scholars from various countries to write 67 papers to serve as reference.

This six-chapter report probes development issues of the South, South-South cooperation, and North-South relations. Its main content is as follows.

1. Issues pertaining to development of the South. The report first of all affirms that South countries "have attained economic and social progress" since independence. It holds that "changes of far-reaching effect have taken place in certain of the South countries that have been established for a long time" and that "the industrial products of the South are presenting, on today's world market, more and more of a challenge to the dominant position of products from the large industrial countries." The report takes great pains to analyze the problems that exist in the South with respect to development. It holds that "economic growth in the South has seldom been able to eliminate structural imbalances" and "has not strengthened the unity and stability of the countries nor their social cohesiveness." In a number of countries, "economic growth has led to even greater imbalances,

unplanned urbanization, an increase in imports, and environmental degradation." "Many countries have neglected agriculture," with the result that "a number of them that originally were self-sufficient in grain have become net importers of grain." The report also points out that, in certain South countries, "modernization means imitating Western ideas, consumerism, and social relations" and what is imitated is mostly the negative aspects of the West, with the result that "South cohesion has been weakened, which has led to social tensions and suffering."

To counter these problems, the report presents the new concept of "self-reliant development with the people at the center" This means that, "with respect to development, not only must the GNP be considered but also how development is to be attained, what the social and environmental costs are, who is going to carry it out, and whom does it serve." The report sets forth the following basic principles and goals for this new concept. "Policies must focus on satisfying people's essential needs and should fully emphasize the safeguarding of food, sanitation, education, and employment"; "efforts to restore economic growth, reformulate the terms of growth, and maintain an acceptable level of development"; "concern for social justice"; "people's cultural development"; "not imitating the life styles of the rich industrial societies"; carrying out "democratization of the political structure and modernization of the state"; "putting into effect a mixed economy that is mutually complemented by state and market mechanisms"; "paying more attention to the role of women"; "creating, mastering, and utilizing science and technology"; and "protecting the environment."

It is worth noting that, in dealing with development issues, the report presents ideas which are not in agreement with views prevalent in some South countries today. The report holds that "privatization cannot necessarily provide an across-the-board solution," since "privately operated enterprises cannot replace public-operated enterprises that perform important social services." The report holds that the "green revolution" is not necessarily applicable to all South countries since "the same fine results cannot be produced in some of the ecologically complex interior regions that have adverse environments." It can even "create certain problems." For example, it can interfere with the diversity of animal life and make plant diseases and insect pests a more serious problem.

2. South-South cooperation issues. The report holds that, although South-South cooperation has developed somewhat in recent years, generally speaking it is still "fragile" and definitely not "universal." Even today, many of the economic relations between South countries still must be carried out through the North. The report holds that strengthening conditions for South-South cooperation would be more beneficial now than it would have been 10 years ago. This is because "the economies of a great many developing countries have greatly diversified in the past 30 years" and "industrial development has

created a new complementarity between them." The situation demands that the South jointly manage commonly held natural resources, jointly deal with environmental problems, and make a joint effort to ensure that the scientific and technical needs of the South are met. The report holds that unfavorable prospects for South-North relations are forcing South countries to focus on their own collective strength, while the banding together of the North will also encourage the South to unite.

The report presents detailed proposals for the overall strengthening of South-South relations. Eleven of these are selected to make up the "Priority Action Plan for South-South Cooperation." Their main points are as follows. The development plans of the various countries and state policies should clearly embody a commitment to South-South cooperation and provide for establishing national committees on South-South cooperation. Greater use should be made of presently existing educational facilities in the South to satisfy the educational needs of the state that are not being met. South scholarships should be set up to facilitate the exchange of students, teachers, scholars, and engineering and technical personnel. With respect to financial cooperation, greater attention should be paid to regional and subregional settlement of accounts, arrangement of payments, and provision for export credit accommodations. A debtor nation forum should be set up. A South bank open to all South countries should be established. A "general preferential system for global trade" should be used to encourage South-South trade and ensure that most of the goods from the South enjoy this type of preferential treatment before the year 2000. Urgent consideration should be given to strengthening the association of primary producing countries. A Third World chamber of commerce should be established. There should be frequent discussions on guaranteeing food, and plans should be drawn up stipulating joint assistance for resolving Africa's food problems. A strategy should be worked out for South scientific and technical cooperation. And regional and subregional cooperation should be strengthened. In addition, the report proposed setting up a South secretariat.

3. South-North relations. The report sets forth a new concept with respect to the nature of South-North relations, that is, "asymmetrical interdependent relations," which holds that "the dependent relations that the South has with the North go far beyond interdependent relations." The report maintains that this explains the difficulty and the long-term nature of the South's struggle to obtain equal status.

The report analyzes why the South-North dialogue built up some momentum in the seventies and then ebbed away in the eighties. The report severely criticizes the negative attitude of the North and also points out that the South "lacks unity,... making it difficult to present a common program in its talks with the North." The report contends that the joint organizations of the South "have achieved considerable success politically, especially, in the struggle against colonialism. However, they

have not had the same effectiveness in dealing with economic issues." Certain South countries, "to cope with domestic emergencies," have been unable resist the "enticements" of the North.

The report is not optimistic about the prospects for North-South relations in the nineties. To turn this unfavorable situation around, the report presents comprehensive and specific measures to counter it. Six of these have been selected to serve as the "Global Emergency Action Plan." Its main points are preventing the flow-back of North funds and reducing South debt; organizing multilateral arrangements that both protect the global environment and guarantee sustained development—multilateral arrangements which must respect the freedom of countries to set their own priorities and formulate their own policies; doubling the amount of concessional funds given the developing countries by 1995, mainly through multichannel implementation; establishing independent international bodies to assess the needs of developing countries; setting deadlines for the elimination of protective barriers and formulating regulations to stabilize and support the prices of primary goods; and safeguarding developing countries from being harmed by international interest and exchange rates and violent fluctuations in trade conditions.

The report takes a realistic approach with respect to countering drugs, the environment, and the fall in the prices of primary goods, making demands on both the South and the North. This has undoubtedly improved the credibility of the report's proposals.

When the report first came out, one of the initiators of South-South cooperation, Malaysian Prime Minister Mahathir, declared that, historically, it was "the first report possessed by the South, written by the South, and serving the South... I am confident its proposals will be put into effect and not laid aside and ignored."

UNITED STATES

U.S. Access to Gulf War News Viewed as One-Sided

OW0703135691 Beijing XINHUA Domestic Service
in Chinese 0954 GMT 5 Mar 91

["Jottings on International Affairs: Gulf Crisis and Shortwave Radio (By XINHUA reporter Wei Guo-qiang)"—XINHUA headline]

[Text] Washington, 4 Mar (XINHUA)—Ever since the crisis in the Persian Gulf, particularly after the outbreak of war, demands on the shortwave radio market in the United States have exceeded supplies. It has been reported that one of the largest U.S. home electrical appliance retailers, which sells three shortwave radio models, ran out of stock as early as Christmas. The other two models sold out in mid-January. On the very day the war broke out, the total number of shortwave radios sold by this chain store and its more than 7,000 branches

increased 500 percent over a normal day. This panic purchasing of shortwave radios in the United States is indeed an unheard-of novelty.

The United States is a country which brags about the freedom of its press. It has a law, however, which prohibits building of any shortwave broadcasting stations at home. Therefore, its shortwave radio broadcasts exclusively for foreign listeners and of a "purely propagandist nature" all originate abroad. The general public in the United States does not seem interested in what these stations, which publicize the "American spirit," have to say every day. This being the case, why have so many people purchased shortwave radios?

According to theories by U.S. journalists, this phenomenon may be explained by the people's "thirst for information." But in fact, ever since the Gulf crisis began on 2 August 1990, the U.S. media have reported widely on the relevant situation. When the war broke out, the U.S. media reported at great length on war developments. CNN has carried continuous reports day and night on the battle from the front lines. The three major television networks used their daily prime-time slots to broadcast war news. Several major newspapers have daily devoted nearly 10 pages to reports and photos on the war. When people turn on the radio, they hear nothing but war. Therefore, it obviously does not make any sense to interpret the "shortwave radio craze" as a "craving for information" because people are surrounded by an information explosion.

Remarks by Nieder, chief editor of the U.S. magazine THE PUBLIC INTERCHANGE, seem to hit home. He said that radio stations in Moscow, Havana, Turkey, Israel, Greece, England, Germany, and other countries are all reporting this war in pure English, but they are reporting from different angles. Listening to their broadcasts at night, "people can ponder many questions." "Those who earnestly wish to know the situation behind the thick curtain understand that many news items have not been reported because the news media cannot manage to cover them, are simply not interested, or are unwilling to report them because they are too hostile."

It only stands to reason that the U.S. media would report battle news constantly as hundreds of thousands of U.S. troops fought at the front. However, while reporting this news, they concentrated on the power of high-tech weapons. For instance, during a given period, almost every day CNN repeatedly broadcast shots of U.S. guided missiles hitting bunkers in Iraq and Patriot missiles successfully intercepting Scuds. What apparently impressed viewers most was the U.S. weapons' ability to overcome all fortifications. As for shots of U.S. missiles, other weapons, and equipment causing fiascos and those of millions of tons of bombs of all types bringing tremendous destruction to Iraq's economic installations, on the one hand, and causing huge casualties and agony to the Iraqi people on the other, these were broadcast rarely. The U.S. media also rarely

touched on the powerful call by the international community for a peaceful solution and on the impact of the war on the economies and popular livelihoods in other countries. These were precisely the things about which the American people wanted to know. U.S. news reports did not carry the facts which the people wanted. Naturally, it is not at all surprising that some people would "crave knowledge" from foreign shortwave radio stations.

Now the war is basically over, but people's interest in shortwave radios has not dropped. The manager of the marketing department of a U.S. corporation selling shortwave radios exclusively by mail order has said that shortwave radio sales may drop off a bit. It is encouraging, however, that the shortwave radio has finally showed the American public what it can do. Maybe businessmen are more interested in profits when it comes to analyzing this phenomenon. But people have been enlightened; in a country where "the people have the right to know everything," news reports spread all over the place sometimes fail to supply people with the complete truth. To understand the truth, we must listen to what foreign reports say. It seems that those who regard the U.S. media as the best and most perfect can also be enlightened by foreign reports.

NORTHEAST ASIA

Discussion of Militarism in Japan

91CM0148A Hong Kong MING PAO YUE KAN
[MING PAO MONTHLY] in Chinese No 300, Dec 90
pp 41-44

[Article by Lu Chien-heng (1687 0256 5899): "Japan's Future Role—Defender of the Peace or Invader?"]

[Text] Japan suffered total defeat in the Pacific war and afterward faced large-scale unemployment, hunger, and inflation.¹ However, within the very short span of 40-plus years, Japan has gone from a country in ruins to one making giant economic strides. Its exports leaped from \$6 billion in 1962 to \$140 billion in 1982, a 23-fold increase in the short span of 21 years.² In 1984, Japan's per capita GNP was \$10,474, second only to the United States and ranking second in the world's free market economies.³

Stepping into the eighties, Japan's enormous economic strength had huge impact on a number of places in the world. Its products improved the quality of people's lives; and the Japanese style of business management was admired by many Southeast Asian and Western countries. Some scholars, such as Ezra Vogel, even ranked Japan first in certain areas of science and technology and industry and commerce. Many Asian and Western countries wanted to adopt Japanese methods. There is no doubt that, economically, Japan performed brilliantly. However, in world politics, the country was a pygmy.

After the war, in accordance with Article 9 of its Constitution, Japan abandoned "the right to wage war." However, impressed with its own economic achievements, Japan has renewed its self-confidence. With the passage of time, the rightists have resurfaced. They hope to develop Japan's military and political strength and turn the country into a "formidable great power."

The attitude of Japan today is strikingly different from its postwar values. In the early days after the war, the Japanese were thoroughly disgusted with statism. Having become victims of the atomic bomb, they were strongly against their country being again drawn into world politics and they enthusiastically supported the victorious nations, adding this to their new Constitution. Japan after World War II was merely a "nation of businessmen" busy pursuing material benefit. Having abandoned any strategic role for itself and obeying U.S. policies, it thereby ceded political power to the United States.

After entering the seventies, the Japanese, enjoying the substantial fruits of their wealthy economy, saw immense changes in their own state of affairs and those of the world. According to opinion polls conducted by the Ministry of Education, in 1953, 17 percent of the young people (20-24 years old) thought that the Japanese excelled over Westerners. However, in a 1973 survey, 31 percent thought that the Japanese excelled over Westerners.⁴ In 1990, KOFUKU ZASSHI [FORTUNE MAGAZINE] conducted a poll showing that 70 percent of the Japanese thought that Japanese goods were better than U.S. goods; and that for 33 percent of the Japanese respect for the United States had declined in the last five years.⁵ These surveys show that the majority of Japanese feel that their country is superior and underscore the fact that they no longer have to emulate foreign countries.

New national feelings have resulted from their new self-confidence and self-affirmation. Some Japanese yearn for Japan to play a new political role on the world political stage. Some sectors of domestic opinion have begun attacking the system imposed on Japan by the occupation forces. The commentator Atsushi Koto is of the opinion that the postwar system of constitutional government deprived Japan of its basic sovereign right to be treated as a national state. He suggests that the moment has arrived when Japan must prepare to defend itself. The sociologist Ikutaro Shimizu points out that, with U.S. strength on the wane and its commitments to the world also declining, the United States still must have the strength to protect Japan in the event of danger.⁴ These arguments can be confirmed by some recent political changes.

Ministry of Foreign Affairs spokesman Watanabe declared in 1989 that the Japan Self-Defense Force was insufficient and that steps had been taken for several years to strengthen it militarily "to ensure a self-defense capability."⁶ In 1990, the director general of the Japan Defense Agency, Yozo Ishikawa, reaffirmed that the Soviet Union is continuing to improve the quality of its

forces and, for this reason, asked to strengthen the Hokkaido defenses.⁷ Indeed, if the Soviet Union were continuing to expand its military, this move by Japan would not be cause for much criticism. However, there are already signs of a U.S.-Soviet reconciliation, and U.S. Defense Secretary Cheney has reported that there is evidence indicating that the Soviet Union has reduced its military spending.⁸ Why then at this juncture did the Ministry of Finance agree to a 6-percent increase in military spending in 1990—an increase which constituted approximately 1 percent of the country's GNP? Although Japan's increased defense spending is still in compliance with the Constitution, 1 percent of its GNP is an extraordinarily huge amount that goes far beyond the original intent of the provisions of the postwar Constitution. Japan defense spending for all of 1990 will be \$29.3 billion. The crux of the problem is whether Japan really needs such a huge expansion of its military and whether it has unique powers of penetration to know that the Soviet Union's arms cuts are false. Or is Japan merely using this as a pretext to pave the way for a restoration of militarism on the sly?

During the recent crisis over the outbreak of war in the Middle East, Japan proposed sending nonoffensive military units to assist allied forces there. This was, in effect, a revelation of its actual military strength and its desire to again take part in world political affairs militarily in order to erase its image of "political pygmy." The secretary general of the ruling Liberal Democratic Party, Ichiro Ozawa, hurriedly proposing to send troops to the Middle East without waiting to amend the Constitution, is obviously trying to take full advantage of the opportunity to remake Japan into a "formidable great power." Another Liberal Democratic Party leader, Michio Watanabe, is also going about Southeast Asia drumming up support from various governments for amending the Japanese Constitution to allow the Japan Self-Defense Force to leave the country to protect oil supplies.⁹ In the recent Diaoyutai [Senkaku Islands] incident, Japan dispatched its "Marine Self-Defense Force" to drive away Taiwan fishing boats delivering sacred fire [an Olympic-style torch]. This has made it quite obvious that Japan has already begun to use its military strength "to protect the country's interests." With the sovereignty of the Diaoyutai presently still in dispute, Japan used military force to chase away completely unarmed fishing boats. If Japan was of the opinion that the Taiwan fishing boats were "invading its territory," why could it not have used more moderate means to resolve the issue? Whether this action toward a neighboring country was premeditated or not, it does reveal their military strength. The military action in the Diaoyutai and sending troops to the Middle East are exactly the same. They prove that Japan is impatiently yearning to establish a military force that corresponds to its economic strength and thereby once again play an active political role.

According to a 1980 ASAHI SHIMBUN survey, two-thirds of the Liberal Democratic members of the Diet were inclined toward approving a constitutional revision. According to a 1981 survey, about the same

number of Japanese were willing to tolerate nuclear weapons in their ports as were not. It is obvious the level of abhorrence for nuclear weapons among the public has begun to decline.¹⁰ The issue of revising the Constitution to send troops to the Middle East has recently sparked a vigorous debate. Does this mean that a number of Japanese, both the people and politicians, have gradually begun to develop a rightist mentality and are no longer satisfied with the postwar rules and regulations for peace and order? If this point is valid, then it is going to be hard to ignore resurgent militarism.

After the end of the Vietnam war, the United States gradually scaled down its military forces in Asia and began to encourage Japan to increase its own self-defense capability to assume the task of defending the Pacific region. As a result, the United States and Japan began to cooperate militarily. Japanese military development is proceeding along the lines of high technology, and it is estimated that, before the year 2000, Japan could become as strong as the United States in military technology.¹¹ Japan has purchased from the United States F-28 Sabre, F-104 Starfighter, F-4 Phantom, and F-15 Eagle fighter aircraft and PG-3 Orion antisubmarine patrol aircraft.¹² Japan has also developed on its own "a modern supersonic Zero fighter aircraft," the F-1 manufactured by Mitsubishi, and the PSI antisubmarine aircraft. With respect to tanks, it has the 61, the 74, and the 75. Its naval forces have the DD-142, the DDG-168, and the DDG-169 escort vessels that they designed themselves and attack submarines that they have built. Japan has also actively produced attack missiles, such as the standard Nike-Hercules long-range antiaircraft missile, the Hawk low-altitude antiaircraft missile, and the destroyer-mounted MK-13, as well as an improved version of the Sidewinder air-to-air missile, the AIM-9B.¹³ By the seventies, Japan's military development had gradually met modern military requirements.

In a survey carried out in October 1975, 79 percent of the Japanese felt that "the Self-Defense Force was truly needed," and 44 percent thought that there was a possibility of war.¹⁴ Admittedly, it was just at that time that the Soviet Union was actually posing a military threat to Japan. That the Japanese would think this way is understandable. However, as we enter the nineties, the Soviet threat has receded. Why does Japan still want to step up its military modernization by spending \$1.2 billion developing the advanced FSX fighter aircraft? If Japanese military forces are responsible only for "self-defense" and helping the United States maintain peace in the Asian-Pacific region, this can be accepted by its neighboring countries. If, however, its military forces are mistakenly used "offensively" to rashly provoke border disputes, then its neighboring countries are going to have to be worried. The painful lessons of World War II are still deeply etched in the minds of people in every one of those countries that suffered aggression.

History teaches us that "self-defense" and "aggression" are frequently difficult to immediately separate. Often, countries resort to arms before the true situation is

known. The Japanese Government has, therefore, a responsibility before it renovates its weaponry to make clear its real purpose in expanding its military. The United States as well has a responsibility to keep watch over Japan's military trends. It must not ignore Japan's ulterior motives in realigning its weaponry merely to be relieved of its own military responsibilities.

World War II definitely did not extinguish Japan's militaristic spirit. In 1970, the rightwing writer Yukio Mishima, dissatisfied with the apathetic state of Japanese military forces and wanting to arouse the spirit of "bushido," stormed the headquarters of the Self-Defense Force in Tokyo to stage a coup, urging that the Constitution be revised, and attempting to resurrect the "Yamato spirit" [Japanese spirit]. Having failed in this, he committed hara-kiri. The same year, another rightwing group held a Tokyo rally demanding that the government restore the "imperial constitution of Japan."

On 15 August 1975, Prime Minister Miki set a precedent by worshipping at the Yasukuni Shrine on the "day commemorating the end of the war." This kind of activity effectively violated the Japanese constitutional principle of separation of government and religion. From the time of the Meiji Restoration until now, Japanese war dead, including Class-A war criminals who committed aggression in Asia, have been enshrined and worshipped at Yasukuni. In 1984, the Liberal Democratic Party concocted an argument on "formal worship being in conformity with the spirit of the Constitution." The next year on 15 August, Prime Minister Nakasone broke with the usual practice by actually taking part in the Yasukuni memorial ceremonies in his official capacity. Later, because neighboring countries strongly objected, the 1986 formal worship was temporarily halted. On the basis of this, it would appear that the Japanese Government is intentionally reviving the spirit of militarism. Otherwise, why are prime ministers and high-ranking cabinet officials personally ignoring the Constitution by blatantly using their status as public office holders and drawing on public funds to hold memorial ceremonies at Shinto shrines? Furthermore, when neighboring countries pose strong objections and a temporary halt is called to the memorial ceremonies, the Japanese Government is obviously not resolving the issue with sincerity. It is only shoving it aside, waiting for the "feelings of the neighboring countries" to cool off so it can slip back into its old ways again.

This same type of attitude by the Japanese Government has also shown itself in other incidents. In 1982, the Ministry of Education falsified its textbooks and only backed off somewhat when neighboring countries severely condemned it. However, after the "feelings of the neighboring countries" receded, the Ministry of Education continued as before, playing the same old tune. In 1986, a former school principal, Masayuki Fujio, and in 1988, a former high official in a national office, Seisuke Okuno, issued the "not guilty of aggression theory." In 1989, former Prime Minister Takeshita

suggested that historical rights and wrongs should be left to the historians of future generations to judge.¹⁵ Recently, Japan's former minister of transport and Diet member, Shintaro Ishihara told a U.S. magazine that the massacre of Nanjing was a "lie" fabricated by the Chinese "to tarnish Japan's image." All these various examples are proof enough that Japanese rightists are still defending the militarists who committed monstrous crimes during World War II. It is obvious that they have never admitted their mistakes and mended their ways.

Japanese television has also done a great deal to publicize militarism with such programs as *Isoroku Yamamoto* from the seventies and *The Japanese Empire, 203 Koji*, and *The Combined Fleet* of the eighties. Television programs are undoubtedly based on historical facts. However, by laying particular stress on military men, who with extreme loyalty and bravery give their lives for their country, and without any discussion of what caused the war can easily mislead the Japanese people into supporting militarism.

Going into the eighties, Japan began a determined effort to improve relations with its neighbors. Former Prime Minister Takeshita at an ASEAN summit meeting declared that it was a basic principle of Japan's foreign policy "to make every effort to contribute to world peace and prosperity and to abandon the road of militarism."¹⁶ In his speech in Xian on 19 August 1988 when he was visiting China, Takeshita stressed, "Peace is the only road that Japan can take... It cannot launch another war... It must build a country of peace and prosperity... Japan will continue to work toward peaceful and friendly relations between our two countries for generations to come."¹⁷

Foreign Minister Uno during a visit to China explained, "We must respect the Japan-China Joint Declaration, the Japan-China Treaty of Peace and Friendship, and the spirit of the four principles of friendship between Japan and China, that is, peace and friendship, equal and mutual benefit, mutual trust, and long-term stability. We must work continually to promote relations between Japan and China."¹⁸

The current prime minister, Toshiki Kaifu, in January 1990 pointed out in speech at the Japan-German Center in Berlin, West Germany, "As an Asian country, Japan must do everything it can to contribute to the peace and prosperity of the Asian-Pacific region."¹⁹

The comments of Japan's various politicians indicate that they are all devoting themselves to building friendly relations between their country and various neighboring countries. If this is an accurate reflection of Japan's future foreign policy and if the promises of the politicians can be thoroughly implemented, it will be heartening. The Japanese nation and its neighboring countries must be on the alert for a revival of Japanese militarism, especially for militaristic fanatics infiltrating ruling circles. If they are permitted to manipulate the political situation and disseminate the wrong information, Japan

will inevitably revert to the pipe dream of "building the Japanese empire" and thereby provoke a war. Then, not only will the people of the East Asian countries suffer, broad sectors of good, decent people in Japan will also become victims. The governments of various countries indeed have a responsibility to squarely face an expanded Japanese military and all of Japan's future foreign policies.

In today's world, the extent to which countries are dependent on each other is constantly growing. It is undoubtedly worthwhile for the various Pacific region countries to emulate Japan's enterprising spirit and its ability to perform at a high level of economic efficiency. At the same time, Japan also has to rely on the raw materials, markets, and work force of its neighboring countries. Economic relations between one another are as closely linked as lips and teeth. Consequently, they should strive for mutual trust and respect. Because of the lingering fears that various countries still retain from World War II, it is hard to avoid being wary about Japan. Japan should replace its empty words with sincere deeds and actions that assist East Asian countries, thereby earning their trust for cooperation in building peace and prosperity in the Pacific region.

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NEAR EAST/SOUTH ASIA

Middle East Situation After Gulf War

HK0503064691 Hong Kong TA KUNG PAO in Chinese
5 Mar 91 p 2

[Article by TA KUNG PAO U.S.-based correspondent Wang Jen-yun (3769 0088 5366): "'New Order' After the U.S.-Iraqi War—Written Before Baker's Visit to the Middle East"]

[Text] New York, 4 Mar (TA KUNG PAO)—In the situation in which the outcome of the Gulf war comes to light, the United States will start a new round of diplomatic activities in the Gulf this week in the hope of consolidating the military victory it has won in the Gulf. When Baker, U.S. secretary of state, visits the Gulf region this week, it is believed that he will vigorously peddle the "new order" put forward by the United States. This "new order" will include restricting the arms race in the Gulf region, coordinating the Arab allies' policy toward Iraq, making arrangements for the establishment of a Middle East bank, solving the Palestine problem, settling the Israeli-Arab conflicts, and finally, actively seeking the Arab countries' support of the U.S. Army stationed in the Gulf.

Covered by a Shadow

Before Baker set out, he granted an interview on the U.S. National Broadcasting Company's program *Meet the Press* and felt fairly optimistic about the mediation of the Israeli-Arab conflicts. Nevertheless, before Baker goes to the Gulf to peddle his "new order," even the U.S. allies, including Saudi Arabia, Egypt, and Israel, have put forth their tentative plans that are fairly different from the U.S. plan for the "new order" after the war. This covers Baker's trip to the Gulf with a shadow.

Regarding restricting armaments, Baker believes he will have difficulty convincing even the several allies of the United States. After conducting operations against Iraq, Saudi Arabia, and Kuwait have felt a need to rebuild their armaments and even to expand their armaments; Saudi Arabia has expressed great interest in the air

defense guided missiles and M1 tanks of the United States. Israel also hopes to order U.S. "Patriot" air defense guided missiles, but on the other hand, Israeli hardline leader Sharon also expressed hope that Arab countries (especially Syria) will reduce their armaments to the same level as that of Israel. As the contracted allied relations between Syria and the United States were improvised, it is very hard to expect that Syria will not treat any U.S. proposal on the restriction of armaments with skepticism. The United States also finds it hard to prevent the Soviet Union and other countries from selling arms and ammunitions to Syria and Iran. The prospects for the restriction of armaments in Middle East are, on the whole, still not very optimistic.

The United States Hopes To Keep Its Army in the Gulf

The United States also hopes to keep its Army in the Gulf region after the war and this makes it more difficult for the Bush administration to peddle its proposal on arms reduction to certain Arab countries that have an anti-U.S. attitude. Some senior officials of the Bush administration revealed that the United States hopes to leave a large quantity of materials for military use with Saudi Arabia; it hopes to transfer thousands of U.S. servicemen to the desert region of Saudi Arabia and to keep U.S. troops in Saudi Arabia in the form of receiving training by rotation; it hopes to carry out large-scale amphibious practice on the Arabian Peninsula; it hopes that the U.S. Navy will increase its activities in the Gulf and Arabian Sea. Such news has, it is believed, made Iran, Syria, and some Arab countries very nervous. Saudi Arabia has not declared clearly and definitely whether it will accept the U.S. arrangements or not, but it must consider the sensitive reactions at home and abroad. Even a U.S. ally, President Mubarak, declared on Sunday, "Arab security will be solely an Arab issue."

On the issue of Palestine, the United States, Israel, Saudi Arabia, Kuwait, and Egypt are likely to reach a unanimous view: The PLO and its leader Arafat are ruled out of any arrangements for peace. As the PLO supported Saddam Husayn during this conflict, it has made Saudi Arabia and Kuwait extremely angry. The Palestinians hailed and cheered when the "Scud" guided missiles hit Israel, this has also made Israel adopt a stronger attitude toward ruling out the PLO. Nevertheless, under the circumstances in which Israel has no intention of "exchanging land for peace," the Palestine problem without the PLO will still be an extremely knotty one. It seems that it is not quite possible that Baker can persuade Israel to make a concession.

The Middle East Rebuilds a Bank

Regarding a bank to be rebuilt by the Middle East, even if this can really be established, it is believed that it can easily become a political tool to harm Israel and its supporters. The United States declares that the funds of this organization will come from the Middle East; but Saudi Arabia, the country in the Middle East with the greatest ability to provide funds, has declared that, as

long as Saddam's regime is in power, it will not financially help Iraq with reconstruction. Saudi Arabia also has no intention of restoring assistance to the countries and organizations, including Jordan, Yemen, and the PLO, which supported Saddam. Judging from the sign that the United States has not recently mentioned the rebuilding of a bank in the Middle East, such a proposal as put forward by Baker may fade away.

Baker's trip is to arrange for the Middle East "new order" for the United States after the U.S.-Iraqi war; but there is doubt about whether or not the Middle East new order can be completely arranged by the United States.

Analysis of Palestinian Issue in Israel

HK2502022891 Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 2, 16 Jan 91, pp 9-10

[Article by Si Ke (1835 9363): "Situation in Israeli-Occupied Territories Is Deteriorating Gravely"]

[Text] In mid-December last year, the Israeli Government decided to expel four Palestinian civilians from the Gaza Strip on the grounds that three Israeli workers were killed. This aroused strong indignation inside and outside the occupied areas. The broad masses of Palestinian people staged strikes and held rallies and demonstrations to protest against the case. The international community also condemned the Israeli authorities for this move. UN Secretary General Javier Perez de Cuellar immediately expressed regret and pointed out that the decision of the Israeli Government violated the "Fourth Geneva Convention" on protecting civilians in wartime. The Islamic Conference Organization and many other organizations in the Arab community also issued statements one after another to protest the action of the Israeli authorities.

After the Israeli authorities created the appalling bloodshed incident on the Old City's Temple Mount on 8 October, in which 21 people were killed and hundreds of people wounded, the situation in the occupied areas of the West Bank and Gaza Strip continued to worsen. The Israeli military and police continued to suppress the uprisings and struggles of the Palestinian people by various means and opened fire to kill and injure the Palestinian people on several occasions. According to authoritative Palestinian sources, in the first few days of November, nearly 1,000 Palestinian people were injured. On the eve of the second anniversary of the founding of the Palestinian state, the Israeli authorities imposed a curfew in most areas of the Gaza Strip and sent some Palestinian public figures to jail. Israeli Defense Minister Arens also ordered a blockade of the West Bank and Gaza Strip, and prohibited the Palestinian residents in the occupied areas from crossing the Green Line and entering Israel's territory. He also ordered Palestinian laborers working in Israel's territory to return to the West Bank and Gaza Strip under the pretext of preventing the spread of violent and retaliatory actions. At the same time, hostility between Arab

residents and Jewish people was deepening. The Palestinian people's struggle developed from "stone battles" in the previous three years to the stage of using daggers, knives, and axes to attack Jewish people. Incidents in which Jewish people attacked Arab people also occurred frequently. More and more Israeli people bought firearms. Since last October, sales of firearms in Israel have increased sharply. There have been several incidents in which Arab people were killed and their dead bodies thrown into the street. On 26 December a Palestinian was shot dead by Israeli troops in the Gaza Strip.

In the last three years, about 800 Palestinian people have been killed and tens of thousands wounded. Still many more people were jailed. The prisons of the Israeli authorities in the occupied areas have long been overcrowded.

The Israeli authorities stepped up suppression and even expelled Palestinian people shortly after the 46th UN General Assembly adopted a resolution demanding that the Israeli Government stop expelling Palestinian refugees and resettle them in the occupied areas and when the UN Security Council was discussing the situation there. The behavior of the Israeli authorities showed that they ignored the norms of international law and acted unscrupulously in suppressing the Palestinian people in the occupied areas. The PLO demanded several times that the UN Security Council send international troops to protect the Palestinian people according to UN Security Council Resolution 242. According to the demand of the PLO and some nonaligned nations, the UN Security Council began to discuss the situation in the occupied areas in early October, and unanimously adopted two resolutions in October to condemn Israel for massacring the Palestinian people. However, the Israeli Government rejected these two resolutions, and the UN secretary general could not send a delegation to the Israeli-occupied areas to investigate the conditions of the Palestinian residents in light of the Security Council resolutions. As more incidents of bloodshed occurred continuously, the PLO strongly demanded that an interim UN administrative institution be set up in the occupied territories in order to prevent the occurrence of more bloody conflicts before Palestinian sovereignty is restored. The nonaligned nations in the UN Security Council then continued to put forward new motions to the council, demanding that UN observer troops be dispatched to the occupied areas and a meeting of the signatory nations to the Geneva Convention be held in order to strengthen the protection of the Palestinian residents in the occupied areas. Because of Israeli opposition and U.S. obstruction, the UN Security Council postponed the handling of this motion again and again, and did not conclude a compromise until 20 December, when it adopted a resolution that included the point of opposing Israel's action of expelling Palestinian residents. It is a regrettable fact that, although Israel is a signatory state to the "Fourth Geneva Convention" on protecting civilians in wartime, it does not acknowledge that the convention is applicable to the occupied areas of

the West Bank and Gaza Strip, thus setting itself against the norm of international law.

The worsening of the situation in the recent period was not accidental, and there were profound intrinsic reasons. At the same time, it was also closely related to the developments and changes in the Middle East situation and the world situation. First, there were frequent crises in Israel's political situation last year. The Likud-Labor Party coalition split, and the Likud group formed a new coalition government with some rightwing and religious parties. It thus adopted a tougher position on the Palestinian issue and brought the Middle East peace process, which was once rather full of dynamism, to a complete deadlock. Second, a large number of Jewish people migrated from the Soviet Union to Israel, and some of them were resettled in the occupied areas. This deepened the Palestinian people's concern over their own future, and they were worried that their homes would again be seized by the Jewish people. Third, the outbreak of the Gulf crisis, especially after Iraqi President Saddam Husayn's 12 August proposal for linking the settlement of the Gulf crisis to the settlement of the Palestinian issue was rejected by the United States, intensified the Palestinian people's anti-U.S. and anti-Israel feelings. Disappointment, worry, and hatred were interwoven in the minds of the Palestinian people and spread widely among them. This stimulated the further escalation of the anti-Israel struggle in the occupied areas. When the Israeli authorities relied merely on violent suppression, they just added fuel to the Palestinian resistance and aggravated the situation.

Although the Gulf crisis now attracts the world's attention, in the long run the Palestinian issue will remain the core of the Middle East issue. The recent deterioration of the situation in the occupied areas has made the international community more clearly aware that there will never be peace and tranquility in the Middle East without settling the Palestinian issue. So there are stronger voices calling for the holding of an international conference on the Middle East issue.

At present, the international community generally demands that the Israeli Government comply with the trend of the times, change its rigid position, immediately stop suppressing the Palestinian people in the occupied areas, move onto the path of dialogue and negotiations, pave the way for a fair and reasonable settlement of the Middle East issue, realize mutual recognition between the Palestinian state and Israel, and thus make all countries in the Middle East, including the Palestinian state and Israel, coexist harmoniously. Only thus can the root cause of the turbulence in the Middle East be removed and can the Middle East, including Israel, enjoy peace and tranquility.

EAST EUROPE

Article Views Albanian Political Reform

HK2702112791 Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 2, 16 Jan 91 pp 8, 9

[Article by Lu Mao (7120 2021): "Albania in Crucial Stage of Reform"]

[Text] Accumulated conflicts within Albania, which have been intensifying, became more conspicuous in December 1990.

On 9 December in Tirana, the country's capital, university students took to the streets to air their grievances against inadequate heating facilities and power cuts in their dormitories and clashed with security forces who came to intervene, causing bloodshed. Thereafter, large-scale violence occurred in four major cities in north, south, and central Albania. According to government reports, troublemakers attacked police and soldiers with weapons, destroyed public facilities, looted shops, and clashed with party and government departments, causing serious destruction and chaos. To control the situation, the government dispatched a great many policemen and soldiers and used armored cars to disperse crowds while arresting key troublemakers. In addition, the domestic mass media also revealed the crimes committed by the troublemakers and stirred up public indignation among the whole people, who loudly condemned the troublemakers. The people demanded harsh punishment for the troublemakers and said they would support the current reform undertaken by the Central Committee of the Albanian Workers Party [AWP]. Then, the monthlong turmoil subsided.

Meanwhile, the AWP, headed by Alia, announced a series of important reform measures in a month's time.

On 11 December, the plenary session of the party's Central Committee decided to reorganize the Central Committee's leadership organ by dismissing seven members of the Politburo, and it supported political democratization and diversification. Other important news was that Mrs. Hoxha resigned from her post as head of the National Committee of the Democratic Front, the country's largest mass organization. She was called a "hard-line leader" by the Western press. According to information, she resigned because of the changes in the situation in the country. The People's Assembly also made some important personnel adjustments in the government, dismissing a number of cadres of ministerial level.

A day after the plenary session of the AWP Central Committee announced its support for political democratization and diversification, the Democratic Party of Albania, with intellectuals as its main body, was established. In Albania, this is the only opposition party currently existing. On 17 December, the presidium of the People's Assembly passed the "Decree on Establishing Political Organizations and Groups," recognizing the right of Albanian citizens to form parties and groups in the country. This decree paved the way for the Justice Ministry to legalize the Democratic Party of Albania, which announced its intention to participate in the general elections in February 1991. Thereafter, Carcani, chairman of the Council of Ministers, conducted dialogues with the leaders of the Democratic Party of Albania. Observers think that Albania is at present, in reality, practicing a multiparty system without having made a public statement.

On 28 December, the Albanian Government decided to allow various social and political organizations and groups to publish newspapers and other printed material, in effect lifting the ban on newspapers. On the same day, authorities allowed the Democratic Party of Albania to publish its party organ, the NATIONAL RENAISSANCE POST, and entrusted the Committee of Culture and Arts to provide necessary conditions for the newspaper.

In addition to the incident in December 1990, the storm in July 1990 was one which Albania had never before experienced in the 46 years since the founding of the nation. At that time, more than 500 people fled to the embassies of 12 countries, including West Germany, Italy, and France, seeking political asylum and departure from the country. The situation was tense. The AWP Central Committee convened an emergency session, while the People's Assembly issued a decree saying that the people who had entered foreign embassies would not be prosecuted and allowing some countries to receive some of those people. Thus, the two-week "embassy trouble incident" subsided. During that period, the AWP and the government made some adjustments in domestic policy.

In the area of politics, the idea of improving the political system and speeding up the process of democratization was put forward, on the condition that the people's government and socialist values were not jeopardized. Meetings of party organs at the grassroots level would be conducted openly and all nonparty members of a unit could attend at their own discretion. Within the party, competitive elections would be held and the tenure of cadres would be limited. In departments responsible for culture, education, scientific research, press, and publications, cadres would be hired through advertisements.

The Ministry of Justice was reestablished, organs were established to oversee rehabilitation, and law firms were established and restored. The regulation was abolished which said that acceptance of foreign loans and establishment of joint-ventures and companies that were solely foreign-funded were traitorous. Those who fled to foreign countries were not to be treated as traitors, but rather as having crossed the border illegally. The 34 crimes punishable by death were reduced to 11 and the death penalty for women was abolished. Punishment for religious preaching was abolished and citizens were to enjoy religious freedom. When citizens so demand, they will be given passports to travel abroad. The People's Assembly also passed the "Bill of Assembly and Processions," which stipulates that when citizens apply for and are granted permission, they can hold gatherings and processions at fixed times and places. It also adopted the "Election Law," which stipulates that the current mass organizations and social groups, along with the AWP (Communist Party), enjoy the right to nominate candidates.

A special commission was established to amend the current Constitution and abolish the regulation saying

"the party is the sole directing political power," stressing that law is superior to everything and that party and government organs must function according to law. Regulations on accepting foreign loans and establishing joint venture enterprises were redrafted. Regulations banning religious activities were abolished.

In the economy, a series of laws was also passed to legalize and make concrete the AWP's resolution on transforming economic mechanisms, starting overall economic reform, and guiding the planned economy toward a market economy. The main points are: 1) Expanding the authority of production units over planning, production, sale, imports, exports, hiring of workers, and wages, and ending the use of administrative measures to manage the economy. Enterprises are to conduct audits independently and take sole responsibility for profits and losses. The state allows enterprises which have been losing money for a long time to close, stop, change, and merge; it also allows enterprises to establish buying and selling relations through contracts. 2) Linking staff wages to enterprise net profits—more income for more work. In some enterprises, new remuneration styles such as contracting can be practiced. 3) Adjusting wholesale prices of industrial products and the purchase prices of some agricultural and pastoral products and, on the premise that prices of basic necessities remain unchanged, allowing retail prices of some daily necessities to flow according to the changes in supply and demand. 4) Replacing state investment with long-term bank loans and lowering the exchange rate of the Albanian currency twice. 5) Abolishing the Ministry of Communal Economy, allowing state-run handicrafts and service industries to practice independent auditing, and

permitting individual operation by handicraft workers and small traders. 6) Allowing foreign enterprises, individuals, and overseas Albanians to invest in Albania. Giving foreign funds full protection and insurance in Albania and allowing profits to be transferred abroad.

The reforms mentioned above broke through many prohibitions formed during the days of Hoxha, enabling Albania's reform process to reach a turning point. However, the reform promoted by Alia met major opposition and even he himself admitted that reform faces challenges and opposition from conservatism and liberalism. The conservative school condemned reform for "abandoning principles and socialism" and secretly sowed distrust of the party and government in society. Some people think that the violence in December 1990 was the work of the conservative school. The liberal school thought that the opening up was not adequate, that Hoxha should be negated, and that the Western model should be promoted.

ZERI I POPULLIT, the daily organ of the AWP Central Committee, thinks that Albania is in an extraordinary period which has a bearing on the country's fate. Alia pointed out at a meeting, "From the political point of view, the situation is complicated. From the economic point of view, the situation is grim. From the viewpoint of public order, the situation is difficult to control." He said explicitly that reform must be carried out within a controllable limit and he asked the people to be patient. However, Western observers think that the reform school headed by Alia is now in a difficult situation and that Albania faces the danger of major turmoil.

Present Socialist 'Upheavals' Seen as Temporary
*91CM0185A Beijing ZHIBU SHENGHUO [PARTY
 BRANCH LIFE] in Chinese No 12, 5 Dec 90 pp 16-18*

[Article by Lin Tai (2651 3141), professor at Qinghua University: "How Are We To View the Rather Perplexing Upheavals in the Socialist Countries"]

[Text] Internal and External Causes for the Present Setback of Socialism

In the last two years, rather perplexing upheavals have been widespread in socialist countries. Some countries of Eastern Europe have abandoned socialism. Unrest has occurred in the Soviet Union. China too, has last year had its share of political disturbances. Well-meaning comrades have been asking: "What, after all, is the matter with socialism?"

The answer must be: Socialism has in the past run an arduous course, from theory to practice, from development in one country to development in several countries, experiencing stormy weather and traveling tortuous roads, a course of defeat and victory. Today, the international communist movement is again experiencing a setback and is in a state of low ebb. In looking at these developments, we must maintain an absolutely clear-headed perception. A setback is not at all something to be feared; it may cause some people to feel utterly disheartened, feel as if there is no recovery from the setback, but it can also spur a person to rouse himself to vigorous action and thus turn a setback into a "mother of success." The crucial factor here is that one must accurately benefit from the experience and draw lessons from one's setback, and also clearly recognize the cause of one's setback.

If we compare the present reverses of socialism with the reverses of the international communist movement in the past, we see great differences in both the international and the domestic backgrounds involved. As we look at the international background, we see that our whole era is still an era of transition from capitalism to socialism, or, as Lenin said, an "era of imperialism and proletarian revolution," but there are also some new characteristics. Since the 1970's, the proletarian revolution and the national liberation movements have come to a temporary halt. The world has entered an era governed mainly by peaceful development and coexistence of the two social systems, although there is also struggle between them. During this period, economic and cultural intercourse between imperialism and socialism has grown continually, but not without also a continuing sharp struggle between the two systems. The struggle has not been, as in the past, one in which imperialism used military means to destroy socialism and socialism resisted imperialism with military might; the struggle now has become one of "peaceful evolution" and countermeasures against it. If we look at the internal state in the socialist countries, we see that, when these countries entered a new phase of economic construction, it generally happened that their original structure would

no longer suit the comprehensive and complex demands of this economic construction, that they are incurring various difficulties in making the necessary transformations, also that faults—some major, some minor—have been committed. This is the international and domestic background that we face in the present setback of socialism.

The imperialist strategy of "peaceful evolution" exerts huge pressure on socialism. When was this strategy initiated? It first arose in 1947. It was at that time that George Kennan came up with the "policy of strangulation," aimed at the flourishing development of socialism after the end of World War II. In addition to a "stepped up encirclement of Soviet might," he believed it would also be necessary "to plant the seeds of destruction inside the Soviet Union," which would then "lead to the collapse of the Soviet regime or its gradual debility."

Actual execution of the policy of "peaceful evolution" took place during the period from 1953 to 1956, after imperialism suffered its setbacks in the aggression against Korea, when Truman became fully convinced that socialism could not be eliminated by force of arms alone and proposed to change the "policy of containment" into a "policy of liberation." A "peaceful method" was to be applied to have socialism "develop a kind of evolutionary change" and "disintegrate from within." After the events in Poland and Hungary in 1956, Truman saw a gap open in the "iron curtain" and thought it would be possible to pin his hopes for "peaceful evolution" on the third and fourth generation of socialism.

However, for a considerable length of time thereafter, imperialism employed both containment and evolution alternatively. "Peaceful evolution," though, did not at all become the main method actually employed by imperialism, because, after World War II, socialism and the national liberation movements blossomed in a flourishing development and imperialism found itself reduced to a secondary position of strength.

During the 1970's and 1980's, the international situation changed as the contradictions in the developed imperialist countries temporarily receded, while the socialist countries encountered certain difficulties in development and experienced deterioration in their internal contradictions. The antisocialist forces in the developed Western capitalist countries, relying on their economic, scientific, and technological superiority, launched a general attack of peaceful evolution against the socialist countries. Most conspicuous in this respect was the 1980 strike of the Polish Solidarity labor union. World capitalism, represented by the United States, was encouraged by this event and regarded it as "the advent of a long-awaited historical opportunity," expecting it to be the beginning of a "new era of democratic reform and revolution." On 8 June 1982, Reagan gave a speech at the British Parliament in which he stated the general objectives of U.S. foreign policy. He said that in the struggle between the two systems "the ultimate decisive

factor will not be atom bombs and rockets, but a contest of ideology and will. Free democracy is on the advance and will throw Marxism onto the rubbish heap of history." He called for "a nationwide effort of the United States (comprising government and private citizens) in support of the cause of democracy." He, furthermore, wanted "all democratic countries to consider in what way they could help the democratic political movement throughout the world." This speech was thought to be the start of "peaceful evolution" strategy taking the offensive. It was followed by the United States calling a "Conference for the Democratization of Communist Countries," held in Washington. The conference studied how to increase popular dissatisfaction with socialism and with the communist leadership in communist countries, and how to influence them toward favoring Western democratization. The conference decided to allocate over \$1 billion to strengthen "Voice of America" broadcasts and other propaganda media, to intensify infiltration in the course of political, economic, and cultural contacts, and it also worked out certain specific measures to that effect. From then on, a "peaceful evolution" offensive was launched against socialist countries, "aimed in particular against East Europe, with Poland and Hungary as possible breakthrough points." Economic aid and technological transfers were used as lures to induce socialist countries to institute pluralism in their politics, and Western "democracy, freedom, and human rights" were the weapons in large-scale "human rights diplomacy," supporting "dissidents" and "political opposition parties" in their attempts to instigate divisiveness and unrest. They invested capital to nurture "a new pro-Western generation" and, in rivalry with socialist countries, contended for the sympathy of the young people, the successor generation. After last year's huge transformations in Poland and Hungary, Bush said at a conference of seven heads of state: "This is the largest victory since World War II, won on an invisible front." "To be successful in this global war without smoke of gunpowder will possibly take us 20 to 30 years, and by then we will possibly have eliminated socialism and thereafter be building a new world order under the leadership of Western civilization."

It has been asked, "Why would capitalism be able to bring about evolutionary changes in us, and why can't we achieve evolutionary changes in them?" The answer must be: In the struggle between the two systems in the new circumstances, international capitalism has certain advantages. Socialism has first been victorious in backward countries. Although socialist countries have achieved considerable economic successes, their disparity with the developed capitalist countries is still very large. The developed capitalist countries are relying on their present economic, scientific, and technological superiority to entice and compel you to develop in the capitalist direction. Bush said quite clearly that it is the intention "to use Western aid to promote and reward political pluralization in the communist countries and the development of free market economies," and "our support will be given to those who stand with us." Thus,

Poland and Hungary, under pressures and enticements of this kind, such as "economic aid," have yielded step by step and have gradually become victims of the "evolutionary" process.

The critical factor for whether imperialist peaceful evolution can be successful in a socialist country is the state of internal contradictions in the socialist country in question. The socialist countries are at present generally suffering from structural contradictions and have to initiate reforms, while we have still not yet completely mastered the rules of socialist reform and construction, and might, therefore, in our explorations still commit unavoidable errors. Imperialism is, of course, exploiting this situation. Specific conditions naturally differ in the various countries; those with a strong socialist foundation and correct leadership are somewhat more stable, while the others are prone to experience large upheavals and even ultimate collapse. The socialist foundation in some of the East European countries had been comparatively weak. This manifested itself in three respects: First, the democratic-socialist forces of the communist parties in some of these countries had been comparatively strong. In some countries, the communist party was established by a merger of the communist party with the socialist party. Before the merger, the socialist party had the upper hand, and it was only due to the situation created by the liberation by Soviet armed forces in World War II, that the communist party assumed leadership position. Any time that an error was committed or a difficulty was encountered, the democratic-socialist forces would again raise their heads. Second, some countries have historically had closer ties to the West than to socialist countries. East Germany was a comparatively backward part of the originally united Germany, and Hungary too had once been a part of the larger Austro-Hungarian Empire, and the capitalist influences in these countries has always been very strong. Also, the leadership in some of these countries copied the Soviet model in all detail or did harm to their own interests in their dealings with the Soviet Union, facts which certainly aroused popular dissatisfaction. Third, these countries committed errors in varying directions in the matter of implementing reforms. Some had no reforms at all, and some deviated in their reform efforts. All this shows us that the socialist countries were definitely in need of reform, but also that they should not have reformed arbitrarily. All these cases are also evidence by negative example that the policy of the CPC was correct in firmly upholding the principle of the four cardinal principles, in insisting on reform and opening up, in insisting on independence, self-determination, and self-reliance, and on carrying out reform in a well-guided and well-planned manner. Different from the situation in East Europe, the democratic-socialist forces had little support within the CPC. Past relations between the West and China had been those of active and passive aggression. The CPC had been born, developed, and has grown up in a people's revolution and represents the interests of the majority of the people; its victories have been won in relying on the support of the people. Even though there

are also in China forces in favor of liberalization, even though our party has also committed mistakes, and even though we have up to now not yet completely mastered the laws of socialist construction and reform, the CPC is, after all, still capable of readjusting its policies as demanded by the interests of the people. Its thorough repudiation of the Great Cultural Revolution and crushing of last year's counterrevolutionary upheaval in Beijing are proofs of this. This indeed is the fundamental reason why the cause of socialism is comparatively firmly founded in China.

Socialism Has Advanced Along an Arduous and Tortuous Road

Replacement of capitalism by socialism is the great trend of historical development, which no force can stop. Socialist practice of over one century has fully proven that, while capitalism will suffer ultimate suffocation, the socialist cause will continuously advance on its tortuous and bumpy road. "Not even a prairie fire can destroy the grass; it grows again when the spring breeze blows."

It may be asked, "If socialism is so full of vitality, why is it that the socialist camp is getting smaller and smaller?"

There are two completely different answers to this question: One is represented by what Brzezinski, assistant for national security affairs of former President Carter, wrote in his book *The Grand Failure—The Extinction of Twentieth Century Communism* [as published], which has now become an important reference book for the state leadership in the United States to guide international strategy. Its basic view is that, "in the next century, communism will irreversibly decline and vanish from history. Its practice and tenets will have no further relation to the human condition." Brzezinski still added another fantasy: "In the year 2017, Lenin's tomb will be turned into an underground railway station... Tourists will come to attend a Kremlin-sponsored exhibition of 'Hundred Wasted Years—The Ghosts of 50 Million Innocent, Murdered People.' This is the trend of thought of those in the international community who subscribe to the 'theory of the failure of socialism.'"

Another answer is the one of the CPC. Comrade Jiang Zemin said, "Replacement of capitalism by socialism is the true great trend of history. It is a decisive stage of transition from the realm of necessity to the realm of freedom... Reviewing the past, looking forward to the future, firmly basing ourselves on China, while keeping the whole world in view, we have full confidence in the certain victory of the cause of socialism."

At present, the international socialist movement is at a low ebb and is meeting various twists and turns, but we have to look, in truly historical perspective, at the onrushing long river of history. We must also see its eddies and countercurrents, but must not allow them to obstruct our vision. Every newborn system has to make its progress through difficulties and various twists and turns. If we look at the surging long river of the entire

history, we must say that, from the last century, when Marxism was still merely a doctrine, to the beginning of this century, when Marxism became a real social system and the vivid reality for millions of people in many countries, there has been progress and there has been advance. As we have seen in the TV show *Chang Jiang*, looking at the Changjiang River from the sky, we see a stream of life-giving water flowing toward the east, but when we stand close to its waters and look only at a small section of the river, we can't say for certain whether it flows east, west, south, or north. The history of socialism is like that. The cause of socialism as a whole is advancing, but when you check it at too close quarters, you see the many difficulties and twists and turns that it is experiencing, even some reverses, while it is a fact that socialism, particularly in overcoming all the various twists and turns, is actually blazing a new trail ahead.

Up to now, socialism has experienced four large reverses. The first came at the end of last century with the Paris Commune. The first proletarian regime, set up after the uprising of the entire working class, was drowned in a sea of blood by the upper bourgeoisie. At that time, Thiers, the representative of the upper bourgeoisie, had already called out: "From now on socialism no longer exists!" After the death of Engels in the 1890's, the social-democratic parties of the various countries shifted to the right. The opportunist trend of thought of the Second International spread widely, but it was precisely in this complex situation that Lenin developed the theory of the dictatorship of the proletariat and wrote his expositions on imperialism, and later, in the October Revolution, established the first newborn socialist system.

The second reverse came after the October Revolution, when the Soviet regime came under joint attack from domestic and foreign enemies, when 14 foreign countries staged a joint military intervention, declaring it their intention to "smother the Soviet regime in its cradle." Denikin, the head of the "White" bandit army, called out: "We shall smash the Bolsheviks like an eggshell!" Capitalists of the Donbass region offered a reward of 1 million rubles to the military unit that would enter Moscow first. Even Westerners of most advanced views who sympathized with the October Revolution had nothing better to say than: "Although the Soviet regime has died, it has left a glorious record in the history of humanity." However, under Lenin's leadership, members of the Communist Party, together with the working class, undergoing all kinds of hardships and difficulties, smashed the joint attack of all domestic and foreign reactionary forces and accomplished the miracle which was so puzzling to the Western bourgeoisie—how is it possible that the vitality of the Soviet regime could be as strong as that? After these events, socialism made rapid progress. As the Soviet Union carried out construction in the course of two five-year plans, the value of its industrial output rose to exceed that of Britain, Germany, and France, which had the Soviet Union leap into first place in Europe and take only second place in the world, just

after the United States, becoming the second-largest industrial country in the world. This achievement shocked the whole world.

The third reverse was suffered during World War II. At that time Hitler's army fought its way to the gates of Moscow, and Hitler shouted, "We shall wipe socialism off of the face of the world," and he also threatened that on 7 November he would review his own army on Red Square. His propaganda minister, Goebbels, ordered Berlin newspapers to leave their main page blank to be ready to print the big news of the capture of Moscow. In the end, all this went up in smoke. Finally, the Soviet Union and its allies defeated fascism.

The cause of socialism has been advancing after overcoming all kinds of difficulties and complex situations. Without the failure of the Paris Commune, the theory of the proletarian dictatorship would not have been developed. Without the spread of the rightist opportunism of the Second International, there would not have been Lenin's development of Marxism. Without the joint military intervention of the 14 countries and without the economic difficulties in the Soviet Union, there would have been no theory of class struggle during the period of transition and no new economic policy. Without the disturbances in China by leftist and rightist opportunists, there would have been no *On New Democracy* by Mao Zedong. Without the attempts at strangulation of the socialist cause by the world's capitalist forces, the victory of socialism would not have spread from one country to many countries. It is precisely as Comrade Jiang Zemin has said, the "newborn socialist system will undergo many twists and turns in the course of its development, but history has already proven, and will continue to prove, that the socialist system has strong historical vitality and ample vigor. Merely looking at certain eddies and countercurrents and not seeing the onrushing long river of history only shows up the political shortsightedness of the observer." At present, socialism is again suffering a setback, but we firmly believe that this is still merely some eddy or countercurrent in the onrushing long river of history. The proletarian revolutionaries of an earlier generation have created the socialist system in the course of much hardship and complexity. The socialists of the present generation and the masses of the population will certainly be able, through arduous explorations and struggle, to overcome these eddies and countercurrents, and to gain new and great victories in the socialist reform and in the struggle between the two systems, and will write a glorious historical record of socialist modernization and construction.

People's Congress Deputies Discuss Roles

OW0103065491 Beijing XINHUA in English
0239 GMT 1 Mar 91

[Text] Beijing, March 1 (XINHUA)—"I feel the deputies' job is one of great responsibility," a newly-elected deputy to a district people's congress in Beijing said in an interview with XINHUA today.

Qiao Xiufu, 60, an administrator at the Chinese Geological Sciences Academy, is one of the 4,891 deputies elected to Beijing's district and county congresses recently.

"The matters which people demand I raise with the higher government authorities cover everything from living facilities to state affairs. This forces me to do a lot of work to fulfill my duty," Qiao said.

He recalled that he addressed public meetings in his ward six times when he was standing as a candidate before the election of new district and country people's congresses in December last year.

Organ of power of the People's Republic of China is the National People's Congress. As its subordinate branches, people's congresses of different levels exist in provinces, cities, districts or counties, towns or townships.

Election of deputies to the people's congresses of district and county level and the lower town and township level is held once every three years. The deputies are nominated and elected directly by the electorate.

Zhou Fulun, director of the Beijing Direct Election Affairs Office, said that direct elections have made the deputies get on good terms with the general public, who entrust the deputies with more tasks than they used to.

The deputies not only have their own full-time jobs, they also have to shuttle back and forth between the public, the congress standing committee and the government to make sure grass-roots views are made known to higher organs, as well as to supervise the government's work.

A people's congress deputy from Haidian district, Professor Wu Shoulun of a college, said that pressure on him and his colleagues comes from the growing scale of the election as well as the growing scope of questions raised to him by the electors.

Woman deputy Ye Yadian said that the government's efficiency in solving problems she raised on behalf of the electors has won the people's confidence in the congresses. Therefore, the people entrust the deputies with more tasks. But the problem of bureaucracy still exists, increasing the difficulties of the deputies.

NATIONAL AFFAIRS, POLICY

Causal Analysis of Poor Economic Results

91CE0233A Chongqing GAIGE [REFORM] in Chinese
No 6, 20 Nov 90 pp 48-51

[Article by Qiu Xiaohua (6726 2556 5478) and Zheng Jingping (6774 0079 1627): "The State of Economic Results and Problems"]

[Excerpt] As the drive to improve the economic climate and rectify the economic order intensified and after the intensity of macroeconomic retrenchment was modified, China's economy has rebounded gradually. However, the problem of poor economic results has not been resolved, with many efficiency indicators continuing to slip. We are still confronted with an array of difficulties. How to pull ourselves out of the doldrums of economic inefficiency even as we keep the economy growing at a suitable pace has become the central issue in the current drive to improve the economic climate and rectify the economic order and in our effort to ensure steady, sustained, and coordinated economic development in the future.

I. Economic Results a Cause for Concern

In the first half of this year, state-owned industrial enterprises in the budget realized 62.7 billion yuan in profits and taxes, 18.6 percent less than the year-ago period. Losses by unprofitable enterprises totaled 12.7 billion yuan, 88.9 percent more than the same period a year ago. As many as 33 percent of the enterprises were losing money. Inventories of finished products among industrial enterprises continued to pile up. In the state-owned commercial sector, circulation costs for every 100 yuan worth of commodities rose 12.1 percent over the same period last year. As of late June, there were 12,000 more money-losing enterprises in the state-owned commercial sector and among supply and marketing cooperatives than the same period last year, with losses exceeding the previous level by 65.5 percent. Because of falling profits, revenues have not been coming in at a satisfactory rate. Spending already ran ahead of revenues when the year was barely half over.

We know from the history of China's economy that poor economic results are a chronic problem. During the 1980's, economic performance actually improved at one point. In the first five years (1980-1984), owing to correct guiding thought and the emphasis on balanced coordinated development, formerly lopsided proportionate relations in the national economy achieved a new balance and economic results also improved. Up to the third quarter of 1984, every indicator portended an economic upturn. Since the fourth quarter of that year, however, as the demand for investment and consumption soared, the economy became overheated, and the industrial structure and economic relations went askew, economic results once again took a downward slide. Although the economy has been expanding rapidly since

1985, it was largely the result of massive human, financial, and material inputs. Poor economic results under a veneer of economic prosperity are cause for concern:

A. The input-output ratio has dropped. Between 1985 and 1989, the input-output ratio (gross social output value relative to materials consumed) of the nation's materials sectors averaged 1.66, that is, 1 yuan worth of input generating 1.66 yuan worth of output, down from 1.75, the average for the period 1980-1984. The 5.1 percent decline means that an extra 70 billion yuan worth of materials were consumed on the average each year from 1985 to 1989. According to statistical studies on key enterprises, of the 109 major material consumption indicators, 73 or 67 percent, showed an increase in 1989 compared to the preceding year.

B. The increase in national income generated by every 100 yuan worth of accumulation has been declining. According to calculations using comparable prices, between 1980 and 1984, every 100 yuan in accumulation increased the national income by 27.7 yuan on the average. The corresponding figure for 1985-1989 was 22.8 yuan, a drop of 17.7 percent from the average in the preceding five-year period. Because of the decline in the return on accumulation, the national income shrank by 61 billion yuan, equivalent to 21.4 percent of the increase in national income for the same period.

C. The national income realized with every ton of energy consumed has been increasing slowly. Between 1980 and 1984, the national income rose 4.8 percent on the average for every ton of energy consumed. Between 1985 and 1989, on the other hand, the increase averaged just 2.4 percent, a 50 percent drop and a far cry from the increases in advanced countries. In 1986, China's energy consumption was 186 percent that of Japan, 237 percent that of the Federal Republic of Germany, and 384 percent that of France. In the same period, however, China's gross domestic product [GDP] was only 13.9 percent that of Japan, 30.5 percent that of Germany, and 37.5 percent that of France. Its true that these figures are not strictly comparable, but the huge gaps do indicate where the potential lies.

D. The trend toward falling efficiency is also evident if we look at the individual sectors. Industry: The return on funds rate for all industrial enterprises that practiced independent accounting fell from 25.1 percent in 1980 to 16.8 percent in 1989. Comparable production costs have risen substantially. Between 1980 and 1984, the comparable production costs of industrial enterprises owned by the whole people that practiced independent accounting rose than 1 percent on the average each year, whereas they shot up 12.1 percent annually between 1985 and 1989. Between them, unprofitable industrial enterprises that practiced independent accounting lost a total of 10.76 billion yuan between 1985 and 1989, 145 percent more than the losses of 4.4 billion yuan in 1980-1984.

Construction: To begin with, the delivery for use rate for fixed assets has dropped. Between 1985 and 1989, the

delivery for use rate for basic construction fixed assets by units owned by the whole people averaged 71.8 percent, a 5.1-percentage-point decline compared to the 76.9 percent recorded in 1980-1984, which translates into a drop of 33.9 billion yuan worth of new fixed assets. Second, the return on investment has been unsatisfactory. According to a longitudinal survey on 56 large- and medium-sized basic construction projects that went into operation in 1988, two-thirds were being utilized 70 percent under capacity while almost one third began losing money immediately after they went into production.

The commercial sector: In 1979, the state-owned commercial sector realized 8.3 yuan in profits and taxes for every 100 yuan worth of commodities sold. In 1989, the figure had gone down to 7.5 yuan.

The extensive model of economic development—high inputs, low outputs, no regard for efficiency, exclusive preoccupation with expansion of the total volume—has been highly damaging to the healthy development of China's national economy. We have reached the point where reform is the only way out.

II. The Crux of the Problem of Poor Economic Results

Poor economic results have long plagued the healthy development of China's economy and have never been resolved. In recent years, they have even showed signs of worsening. The main reason is that all four parts that make up macroeconomic results—resource allocation, economies of scale, technological progress, and management—have been unsatisfactory, have only improved marginally, or are becoming worse.

A. The declining effectiveness of resource allocation. The soundness or otherwise with which resources are allocated mainly manifests itself in the industrial structure and geographical distribution. Changes in China's industrial structure in the past decade can be divided into two stages. The first stage covered the adjustment in the early 1980's. By the end of 1984, what was once a grossly lopsided industrial structure had become more balanced. During the second stage, which covered the period from 1985 to the latest round of adjustment, the industrial structure went from balance to gross imbalance. In other words, the industrial structure was truly balanced only briefly, for two to three years, during this 10-year period. Most of the time it was either lopsided or grossly lopsided. The lagging sectors of agriculture, basic industries, and the infrastructure constitute major "bottlenecks." For instance, between 1984 and 1989, national cotton output dropped 39.5 percent and many large cotton spinning enterprises suspended operations as they waited for cotton. In the same period, however, cotton spinning capacity jumped 60.6 percent. Because of the constraints imposed by basic industries, the processing industry was operating at least one-third under capacity nationwide. Turning to geographical distribution, although national policies and the five-year plan include some broad regulations, their implementation

often has not produced satisfactory results because local industrial policies are not functional and because of the tendency to pursue special interests. Out of consideration for their own special interests, localities have shortsightedly jumped on the bandwagon of high-profit, high-tax processing industries. The upshot is a highly homogeneous structure, with no comparative local advantage. For instance, already there are 166 color TV production lines in the nation scattered among 26 provinces, municipalities, and autonomous regions, without forming a definite geographical advantage. Much production capacity is thus wasted.

B. The advantage of economies of scale is not realized. Owing to the fragmentation of financial resources and investment decisionmaking in recent years, the homogenization of the industrial structure has been accompanied by the non-specialization miniaturization of the enterprise. It has been estimated that at least 65 percent of the enterprises in China do not meet the demand of scale production. For instance, of the nation's 147 washing machine production points, only 14 meet the minimum standards of a reasonable scale. China has over 100 refrigerator plants, yet their average annual capacity is less than 60,000 units, with the four largest plants accounting for just 30 percent of total output. In contrast, the average developed nation produces more than 500,000 refrigerators a year, with the largest plants accounting for at least 70 percent of all output. Of the 300 plus elevator plants in the nation, over 200 make fewer than 10 a year. It is precisely this notion of being "small but comprehensive" that the economies of scale inherent in modern mass production and specialization have often proved so elusive.

C. The effects of technological progress have been minimal. It has been estimated that technological progress in recent years has contributed merely 16.3 percent to the increase in the total output value of urban industry. The very limited impact of technological progress mainly manifests itself in the following ways: 1) Outdated production equipment and backward technology. According to the second general survey on industry, as much as 65 percent of the key industrial production equipment was ordinary or backward by domestic standards. Within industry owned by the whole people, automated and semi-automated production lines accounted for only 2.4 percent of all production in terms of their original value. 2) Products that perform poorly and ultimately do not work. The life-span of Chinese tractors, for instance, is only half that of advanced models in the world on the average. For a Chinese water turbogenerator, the interval between overhauls is less than one third of the international average. 3) Inability to absorb and assimilate advanced foreign technology. In the course of importing technology, we have not paid attention to lateral cooperation to make the most of the strength of existing scientific and technological forces as a whole. Instead we tried to isolate one another and duplicated one another's imports so that the importing and assimilation of advanced technology has had only limited pay-offs.

Between 1985 and 1988, for instance, China spent \$14 billion in foreign exchange to import technology. Yet its ability to absorb and assimilate did not keep pace and the economic benefits of importing technology have been limited. In contrast, Japan spent under \$6 billion to import technology in the 15 years between 1956 and 1970, but absorbed almost all the advanced technology the world has produced in the past half century.

D. Management has not produced satisfactory results. Management in China has not generated good results, whether macroeconomic or microeconomic. This is tangibly demonstrated by the following: 1) Contracting has replaced management, yet contracting targets and contracting methods are less than scientific. Consequently, enterprises behave short-sightedly, pinch and save on equipment, and misappropriate depreciations fees and technological transformation funds, directly eroding their staying power in development. 2) In investment, after "loans were introduced to replace grants," low-return investment continued, as did "senior officer projects" and "informal projects," despite repeated efforts to outlaw them. "Pre-tax loan repayment" has directly lowered the standards for evaluating returns on investment. 3) Chaos in the economic order has complicated the pursuit of efficiency. For example, irrationalities in the areas of prices, exchange rates, and tax rates have precluded fair competition between enterprises and dampened enterprises' enthusiasm for improving management efficiency. On the one hand, irrationalities in the price system have deprived economic accounting of a yardstick, thereby weakening the effectiveness of performance evaluation. Since an enterprise's balance sheet does not truly reflect its standard of management, money-losing enterprises pocket government subsidies with no qualms. On the other hand, provided an enterprise manages to lay its hands on inexpensive materials or market-quotation foreign exchange quotas, it stands to make more money than if it improves management, thus virtually rewarding the lazy and penalizing the diligent. 4) Soft restraints and weak supervision have led to heavy losses. In recent years, it is commonplace for enterprises to pass on production costs arbitrarily, raise prices irresponsibly, and hand out bonuses recklessly. Wages have eaten into profits, resulting in heavy losses. By the end of June this year, for instance, commercial enterprises had taken out a total of 490.8 billion yuan in working capital loans. At the same time, they had a total of 335.6 billion yuan worth of commodities in stock, a shortfall of 155.2 billion. This shows that the misappropriation and misuse of loans are widespread. 5) The social unemployment security system is flawed, which adversely impacts the improvement of management efficiency. Because employment is rigid, enterprises have become bloated with redundant workers. It has been estimated that only 70 percent of the existing work-force is needed to maintain the current level of economic activities. The upshot is that enterprises are stuck with a higher bill for fixed expenses, directly lowering their margin of profit. At the same time, the mechanism of competition, which should reward the superior and weed

out the inferior, has been weakened, hampering the proper adjustment of the industrial structure. 6) Ups and downs in economic development and excessive and overly rapid changes in the enterprise's external environment have undermined the effectiveness of management.

In the final analysis, what has caused this phenomenon is the fact that as reform intensified and economic operating mechanisms changed, we have failed to put together a set of effective stimulative mechanisms that can improve economic results, or to develop a scientific yardstick to assess economic performance that would organically integrate quantity with quality, speed with efficiency, with one promoting the other. Since reform began and in the wake of the introduction of a commodity economy and the diversification of major economic players, society at large has developed a heightened awareness of the commodity economy and the tendency to maximize incomes is stronger now than ever before. But the maximization of incomes is not the same thing as the maximization of efficiency. The extensive development strategy, which relies on high inputs to produce fast growth, may maximize incomes, but is unable to bring about the maximization of efficiency.

Financial contracting, foreign trade contracting, enterprise contracting, and other reforms introduced in recent years may objectively legitimize the maximization of incomes by special groups, given the absence of scientific and effective restraining mechanisms, thus setting the macroeconomic demand to improve economic results with the macroeconomic pursuit of income maximization on different paths and, sometimes, even on a collision course. Consequently, income maximization not only becomes removed from the maximization of efficiency but may at times be achieved at the expense of efficiency. Herein lies the crux of the problem of poor macroeconomic results in recent years. [passage omitted]

Near-Term Reform Urged in Macroeconomic Management

91CE0232A Chongqing GAIGE [REFORM] in Chinese No 6, 20 Nov 90 pp 42-47

[Article by Xun Dazhi (5424 11229 1807), Chang Qing (1603 3227), and Yao Guanghai (1201 1639 3189): "Thoughts About Near-Term Reform of the Macroeconomic Management System"]

[Text] China's economic system reform, which has entered the stage of complete integration of reforms, is in urgent need of a clear-cut path of reform it can follow in order to avoid further groping around and taking the wrong path. An examination of 10 years of reform theory and practice has made clear that China's socialist economy is a planned commodity economy founded on public ownership, and that the key problem in reform is the gradual building of a mechanism for regulating the economy in which a plan economy and market regulation are linked. However, there are no ready-made

theories or ready made models that can be followed to make such a new system concrete. Today, all we can do is apply the orientation of reform already defined together with the country's basic circumstances as a basis for setting the goals for reform of the country's macroeconomic system, including the macroeconomic management goals, regulation and control methods, and the organizational system.

The main tasks and goals of the country's macroeconomic management are: maintenance of basic balance between total social demand and total social supply for the sustained, stable, and coordinated development of the national economy. Specific goals are the following six: (1) Moderate economic growth; (2) overall balance and stable prices; (3) a coordinated structure; (4) balanced international payments; (5) equitable distribution; and (6) full employment.

A sensible macroeconomic regulation and control method for achieving the foregoing goals is the application of economic, legal, and administrative measures against specific plan goals to effect macroeconomic regulation and control of enterprises, indirect control being paramount. An indirect macroeconomic regulation and control system has four distinct characteristics as follows: First is regulation and control of the whole society, i.e., economic activities throughout the society are the objects of regulation and control, including the economy under ownership of the whole people, under ownership of collectives and individuals, and under private ownership, as well as foreign-owned enterprises, and on to families and individuals. Second is a dual mechanism for regulation and control, i.e., an overlapping role between the planning and regulation mechanism and the market mechanism in the macroeconomic regulation and control process. Third is the indirectness of regulation and control methods, state management of microeconomic activity being exercised primarily through economic means, legal regulations, administrative policies, the transmittal of information, and such indirect methods. Fourth is systematic regulation and control policies, i.e., organically linking all regulation and control procedures under guidance of macroeconomic regulation and control objectives to form a mutually reinforcing policy system for overall regulation.

An organizational system for macroeconomic regulation and control includes four parts: (1) A policy control system, which is the central system in the macroeconomic regulation and control system. It is primarily responsible for drawing up national economic development programs and plans, as well as attendant economic regulation policies, exercising overall control and structural regulation of the national economy in an overall sense. (2) A policy regulation and implementation system whose main task is the specific application of government financial policies, monetary policies, investment policies, revenue policies, social welfare policies, and regulation of microeconomic activities as economic development warrants to ensure realization of national

economic development plans. (3) An information statistics system that includes primarily the collection, collation, analysis and feedback of information as a basis for planning decisions and for supervision and checking. (4) A supervision and checking system including auditing, industrial and commercial administration, customs, business inspection, and supervisory, as well as specialized executive organizations.

Clear-cut macroeconomic reform objectives are important, but more important is how to make a realistic start. Real conflicts leave an extremely small amount of room for selecting a road of reform for the country. The slightest error in future reform can lead to a rather serious crisis; therefore, the choice of remedies in near-term reform of the macroeconomic management system requires extreme prudence. The key points in near-term reform of the macroeconomic management system are as follows: (1) to stabilize, augment, readjust and improve existing macroeconomic regulation and control measures for greater macromanagement dynamics, filling in voids and loopholes in macroregulation and control; (2) during a readjustment period when neither the market mechanism nor the market mechanism are fully developed and in which substantial improvement is difficult, proper concentration of capital and materials is needed to increase single point planning character in order to overcome carelessness in market regulation while also making the most of the zeal of enterprise and local governments; (3) gradual building of a macroeconomic regulation and control system capable of promoting stable economic development; and (4) rebuilding of the authority of the administrative system for strict compliance with administrative discipline, unquestioning discharge of orders, and unquestioning enforcement of prohibitions.

Macroeconomic system reform includes numerous aspects. This article explores mostly near-term planning, investment, fiscal, and monetary system reform problems.

1. Planning System Reforms

The planning system is the heart of the country's macroeconomic management system. State macromanagement and regulation and control of national economic activity actually begins with state planning. Therefore, reform of the planning system is the crux of reform of the macroeconomic management system.

The goal model of China's planning system reform should be an indirect planning system that organically combines a plan economy with market regulation. The building of such a new planning system requires a higher level of understanding of the nature and function of planning: Planning under the new system is to cover all society, planning being directed toward economic activity throughout society, including the economy that is not under ownership of the whole people; the essential role of planning is to guide the orientation and goals of economic and social development, maintaining overall

balance and long-range structural harmony in the national economy, thus providing a broad outline and elasticity; planning's main regulatory means are the application of economic methods, legal methods, and necessary administrative methods, the market serving as a medium for indirect regulation and control of enterprise; and the planning system does mostly medium-range planning, with a combination of long-, medium-, and short-range planning.

Plan regulation and market regulation serve two large complementary functional mechanisms, the roles of each being different in character and scope. The national economy may be divided into four levels on the basis of the different characters of the two in regulating the operation of the real economy and the different way in which the two combine. The first level: Areas in which market regulation does not function such as science and technology, education, culture, social welfare, public facilities, and such nonoperational fields are mostly under direct state plan control. The market cannot make decisions. The second level: Market principles have to play a role, but in functional areas in which the market is not fully developed, or in which the role of the market mechanism is limited, such as basic industries and shortage sectors of the national economy, plan regulation must play a greater role. At the same time, an equitable role for market regulation also has to be brought into play. In such cases, plan regulation has to both use the role of the market mechanism and also has to make up for the shortcomings of the role of the market mechanism to overcome market blindness. The third level: In functional areas in which the market mechanism can play a fairly good role such as ordinary production and profit-making industries, mostly state plan regulates and controls the market, the market guiding enterprises, the state not exercising direct plan control of enterprises. The fourth level: In functional areas in which state plan can operate only with difficulty and in which there is no need for control such as the production of small commodities, mostly market regulation functions, the state exercising only needed control through policies and laws.

During the period of improving the economic environment and rectifying the economic order, decentralized reforms should not be carried out; instead, the focus of reform should be shifted toward greater guidance and management of economic activities on which restraints have already been removed, further implementing existing planning system reforms, strengthening the solemnity of command-style planning, perfecting management methods for guiding plans, rectifying the market order, perfecting market regulations, and strengthening needed supervision and control of market regulation.

(1) Better command-style plan management to improve the scientificness of and seriousness about command-style plans. Command style plans that the state hands down to enterprises, must provide basic needs in the form of main raw and processed materials, energy, transportation and communications, and must take

account of economic returns for the enterprises. Enterprises responsible for command-style plan production must ensure production in accordance with plan, accept orders for goods, and make deliveries on time. Enterprises have the right to refuse command-style plan tasks that do not provide guarantees that production needs will be provided.

(2) Appropriate increase in command-style plan product varieties and percentages. In today's circumstances in which the direction of flow of resources departs greatly from state plan goals, and in which the state is powerless to regulate effectively through indirect methods, appropriate increase in command-style plan product varieties and percentages is essential in order to ensure the needs of key construction and the production of key products.

(3) Improvement of plan management, and further invigoration of large- and medium-sized enterprises. Priorities should be set, industry by industry, for existing large- and medium-sized enterprises on the basis of state industrial policy, and the availability of energy, raw and processed materials, and transportation. Enterprise name lists that must be adhered to should be drawn up guaranteeing priority supply of energy, raw and processed materials, transportation and funds to enterprises on the basis of how well they operate and how high their economic returns.

(4) Better indirect plan guidance of the economy that is not under ownership of the whole people. Tax revenues, credit, and attendant policy regulations should be applied to regulate the orientation of operations and the distribution of earnings in the economy not under ownership of the whole people. Township and town enterprises should be actively guided toward the processing of agricultural by-products and local raw and processed materials, labor-intensive industries, and toward the development of traditional handicrafts and lines that support and serve large industry. Steady development of the individual and private economy should be encouraged within the limits that the state allows.

(5) Improvement of central government macroregulation and control capabilities for greater unanimity and coordination in the application of economic measures. Appropriate increases in the percentage of central government financial revenue and foreign exchange apportionments, and investment in order to increase central government ability to regulate the various economic return relationships in the actual operation of the economy. Better coordination of the work of all sectors in which economic levers are located to prevent government from speaking with many voices, one agency contradicting another in effecting regulation.

(6) Putting the economic legal system on a sound footing. Important laws such as planning laws, budgeting laws, banking laws, and cost laws must be drawn up as quickly as possible to bring economic activities within the purview of the legal system.

(7) Better work in the area of statistics, information, and forecasting, and in the building of agencies for the building and strengthening of a national economic information and forecasting network system.

2. Reform of the Investment System

The goal model for reform of the country's investment system should be as follows: gradual shaping of a multi-level, multiform investment system under state plan guidance in which enterprise investment is paramount in conjunction with state, local government, enterprise, individual and foreign investment. The new investment system must combine centralization and decentralization, and microeconomic invigoration and macroeconomic control to put investment activities throughout society on a new track.

At the present time the country's economy is facing the dual tasks of controlling the scale of investment, thereby restraining the inflation of total demand, and the readjusting the investment structure, thereby easing structural conflicts. The focus of near-term reform of the investment system is on the rapid building of an investment management system that is able to control the scale of investment and readjust the investment structure effectively. This effort is predicated on no substantial changes in the current enterprise system and the market system being possible.

(1) Suitable increase in the percentage of central government investment. As a general principle in investment system reform, all investment entities should correspondingly allocate investment resources on the basis of an equitable degree of responsibility, i.e., the construction tasks that each bears, at the present time, the central government is discharging the arduous task of developing basic industries, so it must correspondingly increase the percentage of the central government investment, both increasing investment in key construction and diminishing the impulse of enterprises and local governments to invest in ordinary processing industries.

(2) Dual control over capital construction, instituting an annual scale of investment, and an annual scale of investment in construction, emphasis being placed on controlling the scale of investment in construction. All jurisdictions' investment in projects on which work is to begin in the current year must be planned on the basis of investment in projects that were built and went into production during the previous year. Control of the emphasis of annual investment to control the overly fast growth of investment of external capital, giving encouragement to the investment of funds that enterprises provide themselves. In order to restrain inflation of consumption demand and overcome the shortcomings of insufficient sources of regular revenue accumulations, enterprises use of retained profits should be stringently controlled. Enterprises must withhold a fixed proportion of earnings as a production development fund, and really use it for accumulations.

(3) A strict construction project examination and approval system, providing authority for examination and approval preliminary to acceptance. The present chaotic situation with regard to construction projects in which different agencies examine and approve construction projects without mutual coordination, and in which control over the total scale of investment is difficult has to be changed. Large- and medium-sized capital construction projects and renovation and transformation projects above the set limit should be reported to the State Council for approval following State Planning Commission examination and approval. Investment projects under local government control are to be reported without exception to the provincial, autonomous region, or central government directly administered municipal people's government for examination and approval following provincial planning commission (or planning and economic commission) examination and approval. Alternatively, units empowered by the provincial people's government may examine, approve, and report to the planning commission (or planning and economic commission) as a matter of record.

(4) Levying of a fixed assets investment direction tax to bolster key construction. Investment should be tax free for energy, transportation, agriculture, and education projects that the state urgently wants developed, as well as for technical transformation projects whose main aim is the conservation of energy or water. High taxes should be levied on investment in industries and products in the limited development category, and for multistory buildings, halls, and guest accommodations. A differential tax should be levied as different circumstances warrant on investment in other industries and products. After levying a fixed assets investment direction tax, existing construction taxes should be abolished.

(5) The soonest possible formulation of economy of scale standards and technical-grade standards for project construction, strenuously restricting the initiation of projects on a small scale or at a low level of technology.

(6) Establishment of a national investment regulation fund, the state applying this investment regulation fund to the regulation of investment behavior and the direction of investment through the medium of discounts, joint ventures, and stock share participation.

(7) Greater control over collective and individual investment.

Fiscal System Reform

China's fiscal system reform will begin the building of a complete revenue system that both maintains an equitable distribution relationship between the state and enterprises and also has structural regulation functions, and a level-by-level control budget management system in which central and local government financial receipts and expenditures are independent, each seeking balance.

The focus of near-term fiscal system reform is predicated on vigorous control over too rapid growth of consumption demand, gradually raising government income as a percentage of national income, and central government financial income as a percentage of all government financial income for an adjustment of the inequitable pattern of distribution of national income. Specific measures are primarily the following: (1) Improvement of the enterprise contract responsibility system. A change from base figure contracting to percentage contracting. Percentage contracting means enterprises withholding of a fixed percentage of their actual profits for payments into a government financial fund to be turned over to the state treasury. The contract percentage is to be set according to the firm's classification. Neither all enterprises nor all enterprises in a single industry use a single percentage, nor may they institute a single-business-single-rate contract percentage. Inasmuch as no major changes will be made in the tax system in the near term, readjustment of the contract percentage is a major way in which to regulate the degree of government financial concentration. Setting of the current contract percentage should ensure that government revenue amounts to between 25 and 30 percent of national income. The significance of percentage contracting lies not in how much money per se it can obtain from enterprises, but in the formation of a budget revenue formation system that ensures synchronized growth of government revenue and national income.

(2) Fostering of an individual progressive income tax. An individual progressive income tax is a kind of tax that is functionally extremely important and rather difficult to levy and administer. A beginning must be made now to foster it. First comes a lowering of the point at which a tax is levied and an expansion of the sphere to which the tax applies, thereby increasing the citizens understanding of tax collection. Second is a gradual increase in the individual progressive income tax rates to raise progressive income taxes as a percentage of all taxes paid. Third is the establishment of an individual income reporting system, unreported income being viewed as illegal income with severe punishments being meted out.

(3) Adjustment of tax revenue policy. First is an expansion of the tax base and fair taxation, with gradual increase in the tax rates for township and town enterprises and other enterprises under ownership by others than the whole people to bring them into line with the taxes paid by enterprises under ownership of the whole people. Second is the institution of a proportional income tax and the cancellation of a progressive tax for enterprises including small enterprises under ownership of the whole people, city and town collective enterprises, and township and town enterprises. Since enterprises use different amounts of labor and capital, the income tax level will be bound to differ between one enterprise and another. Ironing out this difference in enterprise income is unfair; consequently, a progressive income tax should not be instituted for enterprises. Third, the individual economy can be treated as an individual progressive

income tax levied on individuals. Fourth is a strict system for tax reductions, tax exemptions, and deferred tax payment that sets forth clearly the limits on tax reductions and exemptions, unifies tax reduction and tax exemption control authority, and rigorously examines eligibility for tax reduction and tax exemption.

(4) Improvement of government financial credit to increase state debt income. For some time to come China will be in a period when large scale structural readjustments overlap with the peak period of debt repayment. During this period an expansion of conflicts between government receipts and disbursements will be difficult to avoid. The way to ease the conflict between government financial receipts and disbursements is to do all possible to expand debt income, or at least maintain the present scale of debt income. Doing this will require improvements in the national debt management system as follows: First is extension of the national debt repayment period, increasing the number of debentures running for 10 years or more. Second is changing the way in which national debentures are issued for assigned sale or apportionment, re-establishing the reputation of national debentures. Third is further fostering of a debentures market, and fourth is establishment of a debt repayment fund.

(5) Reform of the local government financial contracting system in a transition to a tax apportionment system. The prevailing government financial contracting system is the root cause leading to a mechanistic slide in central government revenues as a percentage of nationwide government revenues. The problem does not lie in whether the originally set contracting figures were correct, but rather in its shaping of a budget revenue forming mechanism tilted in favor of local government, i.e., the original contract base figures were set so high that, in operation, central government financial revenues steadily declined. Solution to this problem lies in the institution of a tax apportionment system. During the near term, consideration may be given to the use of per capita national income and per capita government financial income as standards for dividing up provinces, municipalities, and autonomous regions in several types, instituting different tax apportionment methods for the different districts. In place of having a high per capita national income, the central government financial income percentage would be somewhat higher; in areas having a low per capita national income, the central government financial income percentage would be somewhat low. In some places, all tax revenues would go to the local government, the central government providing additional assistance as well.

(6) Readjustment of the government financial disbursements structure. First is strict control over increase in payments of administrative expenses. The key lies in streamlining agencies, disbanding or merging some discretionary organizations such as companies, societies, associations, centers, etc. Second is putting public sectors such as housing, water supply, electricity supply, gas supply, etc. on a more businesslike basis in order to

reduce government expenditures for public utilities. Following verification, the payment of operating expenses may be correspondingly reduced for institutions that produce some income themselves. Third is appropriate increase in the payment of operating expenses for the education, health, science and technology, and national defense sectors, reducing the businesses they operate themselves that conflict with their functions in order to guard against blind pursuit of ways to produce income that hurts the normal development of these sectors. Fourth is an inventory in accordance with industrial policy requirements of the prevailing governmental financial subsidies given under numerous names, reducing or even abolishing subsidies to low efficiency enterprises. Price subsidies for certain consumer goods should also be reduced as circumstances warrant.

(7) Building of a sound government tax revenue supervision and examination system. First is a separation of tax receipts and collection control, both systematizing and standardizing the auditing control system and establishing mutual limitations between tax collection and audit control. Second is clarification of the functional scope and mutually coordinated duties of finance and tax supervisory units at all levels. Third is improvement of the vertical leadership of tax and auditing control units. Fourth is a strict system of rewards and punishments for personnel in finance and tax supervisory units.

Monetary System Reform

The goal of China's monetary system reform is the establishment of a monetary control system that is able to use the role of the monetary system in raising finance capital, regulating total social demand, guiding the direction of capital flow, and improving efficiency in the use of capital. This includes three main aspects as follows: First is perfection of the central bank's macroeconomic monetary regulation and control mechanism and policy measures; second is perfection of the specialized banking system; and third is the establishment and perfection of capital markets and the perfection of an interest rate mechanism.

The focus of near-term monetary system reform is rapid strengthening of the central bank's ability to control currency supply, and readjustment of the credit structure to put a damper on the unfair behavior of enterprises and specialized banks in order to heal the serious wound of overall imbalance and structural imbalance in the national economy.

(1) Establishment of a specialized bank responsibility system. Inasmuch as it will be difficult in the near term to run specialized banks like enterprises, and since the micromechanism for borrowing enterprises is still very incomplete, it is still difficult to use market forces for indirect regulation and control of the scale of credit. In order to ensure sensible operation of credit funds, a specialized bank fund operation responsibility system may be established within the near term. Specialized banks must issue loans against savings deposits, the loan

structure and the savings deposit structure being kept identical, and no short-term funds being used to make long-term loans. Specialized banks that carry out state plan tasks must assure fulfillment of state loan plans. They may not allow the development of loan gaps in state plans. If loans cannot be recovered when due, should losses occur, or should state plans not be fulfilled, bank officials responsible are to be punished economically and administratively.

(2) Greater restraints on bank loans to enterprises: 1) fuller consideration of enterprises' financial circumstances and credit situation; 2) increase in the percentage of funds secured by collateral; and 3) lowering of the percentage of before-tax loan payments permitted followed by a gradual transition to after-tax loan repayments.

(3) Improvements to the working capital control system: 1) stipulate clearly the percentage of enterprise-retained profits to be used in augmenting the enterprise's own working capital, strictly enforcing this requirements, enterprises own working capital thereby increasing as production increases; 2) fixed asset investment plans must take into consideration working capital needs following investment; 3) all increased income that state-owned and collective enterprises receive as a result of a rise in value of goods in inventory following price readjustments must be used to augment their working capital. It may not be used for consumption or other purposes.

(4) Increase in the independence of the central bank. When setting currency supply, the central bank must conduct full discussion with the government and departments concerned, and listen to public opinion; however, once the amount is set, the central bank is to issue the currency independently with no further interference from other government departments. Should special circumstances require readjustment of monetary policy, standard operating procedures must be followed. Greater Central bank decision making authority in applying interest rate policy should provide, first of all, that the central bank is permitted under certain circumstances to decide savings account interest rates in a gradual transition to turning over to the central bank all interest rate decisionmaking authority.

(5) Improvement of the reserve fund system: 1) different reserve rates for savings should have different liquidity; 2) the existing system whereby payments into the fund are made on the basis of the final amounts in savings should be changed to payments on the basis of the average savings balance; and 3) limit the amount of central bank reloan to specialized banks (usually not to exceed 50 percent of reserve funds) and time limits.

(6) Readjustment of the Reloan Structure. In current central bank reloan to specialized banks, 90 percent of loan funds are from within plan, only 10 percent coming from temporary loan funds. "Supply of the former must be guaranteed. When specialized banks use them up, that

weakens the regulatory function of the central bank. The percentage of temporary loans should be gradually increased.

(7) Development of short-term funds markets and limited stock share and debenture markets. While continuing to improve borrowing and lending markets within the same industry, markets for the buying, selling, and discounting of commercial paper and bank instruments should be established as quickly as possible, thereby enabling enterprises to take direct part in short-term funds trading that further advances cash flow. Enterprises should be encouraged to issue long-term debentures and stock shares through banks to augment their working capital, thereby changing the imbalance between assets and the debt load structure of enterprises.

(8) Overhaul of financial procedures: 1) overhauling, cutting down, and merging of non-banking financial institutions such as finance companies as well as rural cooperative fund associations and urban credit cooperatives; 2) greater control over the raising of funds in society and the raising of funds within enterprises; and 3) straightening out the multiple accounts under different names that enterprises have in financial institutions to halt unfair business overlapping and competition.

Finance Official Endorses Tax, Profit Separation

9ICE0209A Beijing ZHONGGUO JINGJI TIZHI
GAIGE [CHINA'S ECONOMIC STRUCTURE
REFORM] in Chinese No 11, 23 Nov 90 pp 15-17, 30

[Report by Wang Xiaozhuo (3769 1420 0587) on an interview with Xiang Huaicheng (7309 2037 6134), vice minister of finance; place, date not given: "The Separation of Taxes From Profits Is a Way To Rationalize the Distribution Relations Between the State and Enterprises"]

[Text] Pilot projects in the separation of taxes from profits, aftertax loan repayment, and aftertax contracting (hereafter abbreviated as the separation of taxes from profits) have been underway for almost three years from their beginning in 1988 up to the present. While they have been gradually expanded during this time, they are still subject to certain conflicting views, about which I recently interviewed Xiang Huaicheng, vice minister of finance.

A Common Understanding Should Be Reached To Clarify the Guiding Ideology

Vice Minister of Finance Xiang Huaicheng first briefed me on the proposal for the separation of taxes from profits as follows: As far as the system is concerned, the key to fiscal reform is to rationally readjust the distribution relations between the state and enterprises, and between the Central Government and local governments. Moreover, readjusting the distribution relations between the state and enterprises is also the basis for fiscal reform. Since the Third Plenary Session of the 11th CPC Central Committee, the distribution relations

between the state and enterprises have been put in the forefront of economic reform. From 1978, when the enterprise fund system first went into effect for state-owned enterprises, until 1987, when the enterprise contract management responsibility system was put into general practice, four major reforms were carried out, in which the state reduced taxes for and conceded profits to enterprises, but never achieved the separation of taxes from profits. The substitution of profits for taxes was turned by the change from profits to taxes into the substitution of taxes for profits, which was then turned back into the substitution of profits for taxes by the contract management responsibility system. That the distribution relations between the state and enterprises were still not very well rationalized had a certain impact on economic growth. In light of this, the Ministry of Finance summed up the lessons that had been learned from past reform experiences and, after much conjecture and calculation, proposed the "Plan To Further Reform Distribution Relations Between the State and Enterprises" in 1987. The key components of this plan were to lower income tax rates for state-owned enterprises, eliminate the regulatory tax category, and gradually put into effect aftertax loan repayment and aftertax contracting (for the turning over of profits to the state).

Vice Minister Xiang continued as follows: The CPC Central Committee and State Council have both paid much attention to the testing of the separation of taxes from profits. Premier Li Peng pointed out in a government work report to the First Session of the Seventh National People's Congress (NPC) in 1988 that, as enterprises are practicing the contract management responsibility system, it will be necessary to gradually change to the separation of taxes from profits, in order to rationalize the distribution relations between the state and enterprises. Premier Li also remarked in a government work report to the Second Session of the Seventh National People's Congress in 1989 that "Experiments in the change from pretax to aftertax loan repayment should continue to be carried out wherever possible, in order to make a gradual transition to the separation of taxes from profits." The Fifth Plenary Session of the 13th CPC Central Committee also decided in 1989 that it was necessary "to actively explore various forms of contracting so as to correctly handle the relations between the state and enterprises, and to carry out pilot projects in a controlled and step by step way." Premier Li also clearly indicated in a government work report to the Third Session of the Seventh NPC in 1990 the need to "carry out pilot projects in the separation of taxes from profits, aftertax loan repayment, and aftertax contracting." At this same Third Session of the Seventh NPC, State Councilor and Minister of Finance Wang Bingqian further indicated in a fiscal budget report on behalf of the State Council and in the spirit of the Central Committee and State Council, that "All provinces and autonomous regions must choose one or two medium-sized cities in which to emphasize the carrying out of pilot projects in the separation of taxes from

profits, aftertax loan repayment, and aftertax contracting." Premier Li pointed out once again at the National Working Conference on Industrial Production that was held in August 1990, "the need to stabilize and perfect the enterprise contract responsibility system and, through pilot projects, to make a gradual transition to the separation of taxes from profits, aftertax loan repayment, and aftertax contracting."

Comrade Xiang Huaicheng said that these directives were the guiding ideology for the launching of pilot projects in the separation of taxes from profits.

It Is Imperative To Enhance Macroeconomic Regulation and Control

Vice Minister Xiang continued his analysis by saying that, as the condition of public finances is an overall reflection of the national economy, is affected by the profound contradictions in our economic life, and is restricted by our distribution system, it has been hard to increase revenues much, fund demand has been constantly increasing, supply and demand conflicts have become very sharp, and public finances are in dire straits.

He continued as follows: Our fiscal difficulties are being caused by the following factors: 1) The major one is that our long lack of a clear industrial policy, the undue emphasis that we have placed on rapid economic growth, and our irrational pricing system have caused overheated industrial growth, inadequate power and raw materials supplies and communications and transportation capacities, and a severely imbalanced economic structure. 2) The poor economic efficiency, too much input, too little output, high consumption, and great waste in our enterprises, have reduced their profit margins, increased their losses, and steadily raised the amount of public subsidization that they need. 3) The incompleteness of our distribution system reform, our overemphasis on driving forces to the neglect of essential restraints, our overemphasis on microeconomic stimulation to the neglect of macroeconomic regulation and control, our overemphasis on local and enterprise interests to the neglect of the role of centralized overall balance, and our undue emphasis on devolving authority and conceding profits to lower administrative levels, have slanted our national income distribution too much toward enterprises, individuals, and localities, and steadily decreased the percentages of national income that goes to state revenue and national revenue that goes into central coffers. The amount of profits realized by industrial enterprises throughout China that are turned over to the state dropped 21 percent from 1986 to 1989, and only about 5 percent of the increased local revenue in the last two years has gone into central coffers. 4) Factors, such as structural weaknesses and poor management, severe enterprise tax and profit arrears, the inability of the state to collect the revenue due, the constant increases in enterprise losses and price subsidies, the arrival of the peak repayment periods for both domestic and foreign debts, and the lack of strict control

over expenditures, which have increased too sharply, have left public revenues in the sorry state of being unable to meet expenditures.

He continued by saying that if this situation is not changed, as the condition of state revenues are bound to deteriorate year after year, to the point where they not only cannot support certain key industries that are badly in need of aid, but will even have difficulty in maintaining normal expenditures, it will be necessary to resolve our fiscal problems and extricate ourselves from our fiscal predicament if we want to stabilize the overall situation and develop our economy.

Xiang Huaicheng emphasized the following actions that must be taken to surmount our fiscal difficulties and extricate ourselves from our fiscal predicament. We must tackle the problem in a comprehensive way, by enhancing macroeconomic control and drawing up a scientific and rational industrial policy that can be relied on to adjust the economic structure and improve the economic environment. We must lower our input, raise our output, cut losses and waste, improve our macroeconomic and microeconomic efficiency, increase revenues, and strictly curtail expenditures. We must eliminate the defects in our financial system and other economic systems, appropriately adjust the revenue and distribution structures of our current national income, gradually increase the percentages of national income that goes to state revenue and national revenue that goes into central coffers, and enhance the macroeconomic regulation and control capability of public finance.

Improving and Expanding the Current Contract System

Vice Minister Xiang said that while it should be acknowledged that the contract system plays a clear driving role in arousing the initiative of enterprise managers, staff members, and workers to increase production, it still contains the following defects: 1) Rigid contracting of profits to be paid into public finance makes income taxes exist in name only, keeps them from playing their flexible role, enables enterprises to keep most of their increased profits, and prevents state revenue from getting its due portion of even increased product prices, which are increased income that is not earned by subjective enterprise efforts. This is one of the reasons why the percentage of national income going to state revenue has been falling year after year; 2) the substitution of contracting for better management, responsibility for profits but not losses, and increases in both investment and consumption demand, have not been curbed; 3) the continued practice of pretax loan repayment has prevented adjustment of the industrial and enterprise organizational structures. On the other hand, the separation of taxes from profits would bring out the rational implications of the flexibility of incomes taxes, in organizing the capability of revenue and economic regulation advantages, and contracting, to arouse enterprise production initiative, while developing what is useful and eliminating the flaws in the system of no distinction being made between taxes and profits, and

pretax loan repayment and thus, achieve macroeconomic regulation and control along with microeconomic stimulation. Therefore, the separation of taxes from profits is neither a simple return to a change from profits to taxes, nor a thorough repudiation of current contracting methods, but rather a further improvement and expansion of the contract management responsibility system.

After this brief clarification of the theoretical basis for the separation of taxes from profits, Vice Minister Hsiang went on to tell me about the positive effects of the separation of taxes from profits on improvement, rectification, deepening of reform, and promoting the sustained, steady, and coordinated development of the national economy.

—It will help to enhance our macroeconomic regulation and control capability, speed up adjustment of the industrial structure, and improve macroeconomic efficiency. The distinctive feature in China's socialist economy, of combining economic planning with market regulation, means that the state must use both economic levers and administrative means to control and regulate economic operations. As far as its impact on the collection of income taxes from enterprises, the separation of taxes from profits will increase state revenue in line with higher enterprise earnings and thus, strengthen state macroeconomic regulation and control, and enhance the state's capacity to upgrade technology in basic industries and infrastructures, and invest more in key capital construction projects. Moreover, the comprehensive utilization of state finance in forms, such as financial allocation, financial credit, and financial discounting, will actively guide social investment orientation, speed up the optimization of the industrial structure, and promote improvement of economic efficiency. This will create a good external environment for promoting improvement and development of enterprise efficiency, as well as for microeconomic stimulation.

—It will bring economic adjustment and social stabilization more into line with changes in enterprise external conditions, and give more consideration to the interests of both the state and enterprises. When the economy is growing normally and smoothly and enterprise economic efficiency is improving, the flexibility of income taxes will enable both the state and enterprises to gain corresponding benefits and expand faster and in better synchronization and, when economic operations are experiencing difficulties and enterprise economic efficiency is dropping, the flexibility of income taxes will enable the state to share the risks with enterprises, help enterprises to tide over difficulties, enable the profits and risks to be shared, and give the state the capability to regulate and control the economy and enterprises the capacity to increase production.

—It will help to curb increased investment and spur enterprises to improve their economic efficiency.

While there are many things that cause increased investment in fixed assets, the lack of an investment restraint mechanism in pretax loan repayment is certainly one of them. Changing loan repayment from pretax to aftertax is a mechanism conversion, which will increase the economic responsibility of both debtors and creditors, spur them both to pay more attention to economic investment, and help to curb increased investment.

Vice Minister Xiang summed up by saying that, as the separation of taxes from profits is a rational way to both promote what is beneficial and abolish what is harmful in the change from profits to taxes and in the contract system, the newly formed order, in which taxes and profits coexist, conforms to China's conditions, is in line with the laws of economic growth, and is a rather ideal option for rationalizing the distribution relations between the state and enterprises.

Pushing Ahead With Pilot Projects

Vice Minister Xiang also responded to my request, by briefing me on the pilot projects that are underway in cities, such as Chongqing and Mudanjiang, as follows: While pilot projects began to be carried out in several regions in 1988, in which the participating enterprises have generally begun to both achieve basically synchronized increases in output value, sales income, realized profits, income paid to the state, and enterprise-retained profits, and also to curb their irrational investment actions, it should also be understood that the separation of taxes from profits is still experiencing the following difficulties: 1) it is different from past reform measures, in that it rationalizes relations instead of just lowering taxes and conceding profits; 2) this reform is bound to strike at the existing distribution structure, by increasing profits for some regions, sectors, and enterprises, and reducing them for others; 3) this reform method is still in an experimental stage, and various issues still need to be further resolved through experimentation.

He continued as follows: The separation of taxes from profits needs to be coordinated with other reforms. In addition to their own management and administrative expertise, enterprise efficiency is also restricted by the external social and economic climates. For instance, matters such as adjustments in state pricing policies, the soundness of the social insurance system, and the weight of excessive enterprise social burdens all affect enterprise economic efficiency. The repayment of enterprise investment loans is closely connected to reform of state investment and banking systems. Moreover, the separation of taxes from profits is closely connected to budget management system reform. Various aspects of reforms in these areas must be dovetailed with the separation of taxes from profits. Unless all of these reforms are coordinated with each other, they are likely to curb and weaken reform results, and even become obstacles to reform. Thus, overall planning of all reforms and striving for concerted action are extremely important.

As to how to further push ahead with pilot projects in the separation of taxes from profits, he pointed out the following three tasks that need to be emphasized:

1. Pilot projects must be better publicized to strengthen confidence in them. The aim of better publicity is to help more people understand, endorse, and support the separation of taxes from profits reform.
2. Views must be solicited from all parties, practical experimental issues must be resolved promptly, the interests of all parties must be given reasonable consideration and handled correctly, and the feasibility of experimental methods must be enhanced;
3. Pilot projects must be carried out in a down-to-earth and factual manner, in order to gradually pave the way for their general implementation.

Several Specific Policy Issues

Xiang Huaicheng replied to my question about the specific policy issues involved in the methods used for the pilot projects in the separation of taxes from profits as follows:

The setting of income tax rates involves one, whether to use a single proportional tax rate or a series of superprogressive tax rates and two, whether tax rates should be set at 35 percent or suitably reduced somewhat. The following three explanations are necessary here: 1) the 35 percent tax rate was set on the basis of a full investigative study and much conjecture and calculation; 2) the income tax rate being set at only 33 percent for Sino-foreign joint ventures but 35 percent for domestic enterprises, can be considered a reflection of preferential policies for enterprises in which foreign nationals are involved; 3) as enterprise income tax reform is oriented toward a centralized income tax system for domestic enterprises, further reducing the income tax rate for state-owned enterprises would necessitate reducing it for collective and private enterprises as well, which would be hard for state finance to bear. As various parties hold varying views on the issue of whether to adopt a proportional or progressive tax rate, it is hoped that based on further summing up the pros and cons of the two systems, one in which the advantages outweigh the disadvantages can be selected to be put into overall practice in the future. At present, we should continue to use the 35 percent proportional rate that is being used in the pilot projects;

The loan repayment issue is a difficulty for the separation of taxes from profits. While some comrades worry that aftertax loan repayment might have a negative impact on enterprise development of production stamina, I would like to note that this is not necessarily so for the following reasons: 1) Based on state industrial policy, and as to whether basic industries that concern the overall national economy in areas, such as power, transportation, and raw materials, can be developed steadily, while the state can slant its policies to speed up their growth rates by increasing its investment, it neither

should nor can allow loans to be relied upon to resolve all investment issues; 2) the separation of taxes from profits, lowering of income tax rates, and appropriate speeding up of the depreciation of fixed assets in line with industrial policy on new loans, will all increase the capability of enterprises to upgrade their technology; 3) a gradual transition method has been used for old loans, including loan repayment out of both pretax and aftertax profits; power, transportation, key construction, and budget adjustment funds have not been collected for aftertax profits used for loan repayment; and the dividing line between new and old loans has been pushed up to the end of 1989.

Vice Minister Xiang Huaicheng said in closing that, as to the distribution of aftertax profits, all pilot project areas should sum up the experiences acquired and lessons learned from current contract methods, promote what is beneficial and abolish what is harmful, and actively explore various forms of the aftertax profit contract management responsibility system.

Deng Xiaoping Comments on Market Economy

91CE0194A Hong Kong CHING PAO [THE MIRROR]
in Chinese No 11, 10 Nov 90 p 40

[Article by Ming Li (2494 7787)]

[Text] In mid-August, with the national economy facing a slippery slope, Deng Xiaoping invited Jiang Zemin (3068 3419 3046), Yao Yilin (1202 0122 2651), and the well-respected economist Gu Mu (4474 3668) to discuss "the direction that China should take toward reform and openness."

Reform Must Go Forward or It Will Backslide

Before he began to say anything, Deng passed out data that his staff had compiled this spring from surveys made of special zones, opened-up zones, large coastal cities, and southwest China. He made a judgment as to whether the policy of reform was right or wrong, whether it should take a step forward or back, by saying: "From what we see now, the course taken on reform and openness is the right one. In some places, the habit of doing things the old way has held back reform. This problem must be resolved with common understanding and common action. I have spoken to some old comrades (party elders), telling them that they should not be the imperial commissioners to obstruct reform, whether intentionally or unintentionally. The Central Committee did not give them a magic sword. Everything should be done according to the policy of the present leadership. If we do not progress forward, we will fall back, and will fail and lose in the end. There is no other choice."

Implement the Market Economy Step by Step

According to news leaks, Deng Xiaoping expressed his opinions on the problem of the market economy. He said: "Apart from those areas dealing with basic energy

and important mineral resources, and with transportation by land, sea and air, we can plan to implement and perfect a market economy by region. It is only natural to encounter problems during implementation. We should not immediately doubt that we made a mistake, or moved too fast just because a problem appeared. For there to be no mistakes is a mistake in the thinking and awareness of some comrades. If we do not move forward at a faster pace, we will slow down. To move forward faster is a viable course, a course on which the Chinese people will flourish and become powerful and strong."

A Firm Grasp Is Not a Stranglehold

When Deng Xiaoping moved to the topic of food production, a top priority item dealing with the people's livelihood, he said: "We must have a good and firm grasp of what we are doing. This does not mean a tight stranglehold type of control, for in the final analysis, this is a policy problem. The core of this is to break off the fetters of an old ideology."

Deng also proposed a plan which calls for bilateral action from two angles. From one, action starts first in the special zones and the coastal cities, after which the scope of reform is broadened to cover large and middle-sized cities and towns. From the other angle, reform starts in the staples and food-producing areas, then broadened to include the nonfood producing areas. He said this is an important problem in reform, for this problem has yet to be resolved in all socialist countries, and even in some capitalist countries after 70 to 80 years. Conditions in China are more favorable than those in the Soviet Union and those in East Europe, with fewer headaches. When the policy is right, cadres in the leadership become the decisive factor.

Gu Mu Stresses Even More Openness

According to a communication carried in the August 23 issue of the China mainland publication GUOJI SHANGBAO [INTERNATIONAL BUSINESS NEWS], Gu Mu, vice-chairman of the CPPCC (Chinese People's Political Consultative Conference), had inspected opened-up economic zones in Hebei Province and the Qinhuangdao municipality in company of local leaders in charge. Gu Mu said of the trip, "While opening to the outside has been ongoing for several years, it is still a new task for us. Once opening to the outside is on track, we must be a little bolder and a little quicker to take the next step to tear down old ways of doing things, to further relax the policy of openness. While many localities in China are now open to the outside, they still follow old styles of management. Tight controls must be relaxed to step up development."

Reform Ideology Gaining Again

According to news received from the Chinese mainland, the Chuanmei unit was notified recently that beginning in mid-October, everyone in the unit must follow the policy decision made by Deng Xiaoping to promote and publicize the importance of reform and openness. People

in political circles compare this notification with an earlier one where Chuanmei was told to promote and publicize Chen Yun's [7115 7189] muddled economic ideas, and conclude that Deng's ideas on reform and openness have gained the upper hand again.

Review of 1990, Prospects for Economy in 1991

91CE0208A Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese No 11, 23 Nov 90 pp 18-21

[Article by Qiu Xiaohua (6126 2556 5478): "Economy in 1990 and Prospects"]

[Text] The worst is over for the Chinese economy. It will continue to improve. Overall the extent to which the economy has rebounded still falls far short of what the plan demands. That the current economic system and operating mechanisms are not totally rational is an underlying factor for the failure of the string of stimulating measures introduced since the first half of 1989 to work as well as they should. Right now potential inflationary pressures are intensifying. We need to further improve macroeconomic regulation and control.

Judging from the performance of the national economy since the beginning of the year, some imbalances that hamper the normal development of production and circulation have moderated. Economic recovery has accelerated. In the first three quarters, the GNP amounted to 1,197 billion yuan, up 2.7 percent over the same period last year. The situation is getting better. But since the various stimulating measures are not yet working perfectly well, particularly since the present economic system and operating mechanisms are not yet fully rational, progress in the adjustment of the economic structure remains inconclusive, profitability continues to fall, and the budget deficit has worsened. The worst is not yet over for the economy. We must continue to implement the stimulating measures even as we keep a lid on the total volume firmly. Develop as we rectify, and improve profitability as we develop and rectify so as to put the economy on the track of healthy development soon.

The Economy Continues To Pick Up

Broadly speaking, there have been "six major gratifying changes" in the Chinese economy since the beginning of this year: - Agricultural production has emerged from the doldrums of the last few years. Bumper harvests have been reported all around. The summer-grain and dry-rice bumper harvests will be followed by a good autumn crop. Projections put grain output for the entire year at around 420 million tons, 17.50 million tons more than last year, the sharpest rise since 1985. Bumper crops have also been harvested in major cash crops such as cotton, oil-bearing crops, and sugar-bearing crops.

—Industrial production has bottomed out and is now rebounding steadily. Continuing the momentum of

recovery in the first two quarters, industrial production in the third quarter has been gathering pace, rising by about 2 percentage points each month on the average. In the third quarter industrial production was up almost 5 percent over the same period last year, higher than the growth rate of 4.1 percent in the second quarter. In the first three quarters, the total output value of the nation's industrial enterprises at the township level and above was 1,402 billion yuan, an increase of 3.1 percent over the same period in 1989. The product mix has been adjusted and there has been a steady growth in the output of popular marketable products. Industry was sluggish between September and December in 1989, so industrial production in the fourth quarter is expected to show a strong gain since the base was so low.

- Key construction has accelerated and the investment pattern has been adjusted successfully. In the first three quarters, 26.8 billion yuan were invested in 200 key construction projects planned by the state. This represents 67.2 percent of the projected investment in key construction for the entire year, higher than the 57 percent investment rate in capital construction nationwide.

With the support of preferential policies, sectors like energy and transportation have developed rapidly, while investment in the usual processing industries has declined proportionally.

- China's international balance of payments has improved appreciably. The official foreign exchange reserves have rebounded and the economy is gaining strength. According to customs statistics, China's exports have been doing fairly well throughout the year, chalking up a surplus every month except February, a departure from the string of deficits it ran up in recent years.

- The domestic market has been expanding instead of shrinking and prices have been fairly stable. Since the beginning of this year, commodity supplies on the domestic market have been plentiful and consumer confidence is up. Compared to normal years, the total volume of commodity retail sales index has been stable from month to month, with no significant ups and downs. As social demand picked up, the decline in commodity sales has leveled off. Beginning in June, commodity retail sales stopped falling and began rising. In the first three quarters, the average quarterly gain was 2.2 percent over the same period in 1989, with September alone posting a gain of 3.6 percent. On the other hand, there has been no basic improvement in the soft rural market, seriously depressing market sales nationwide. Between January and September, social commodity retail sales totaled 603.7 billion yuan, down 0.6 percent from the same period a year ago. Social commodity retail sales are expected to continue to improve in the next few months.

As the market stabilized, prices too have been moving in an unanticipated direction. Although both the central government and local authorities have introduced several price adjustment measures, they have had minimal effects on market prices. Retail prices continue to rise at a slow rate month after month. We expect retail prices for the entire year to rise 3 percent or so, notably lower than the 17.8 percent of last year, mainly because of a favorable situation in agricultural production and because the prices of edible commodities have held steady, with some even falling.

- Social stability continues. Factory closings and semi-closings and the increase in the number of people waiting for jobs have slowed. Because governments at all levels have made them a priority, factory closings and the increase in the number of unemployed people, problems that appeared in the wake of macroeconomic retrenchment, have eased. As of late September about 3 million people, or 3 percent of the labor force in production, were waiting for jobs nationwide because their factories had closed, down 3 percent from the beginning of the year. Nationwide about 4.5 million people were waiting for jobs. The unemployment rate of 3 percent is better than anticipated.

The above-mentioned changes show that our effort to stimulate the economy has been fairly effective. In terms of economic development, the worst is over. The economy continues to move ahead at a brisk pace.

Major Problems in Operations

The economy has now begun to rebound, thanks to a variety of relaxation measures in the areas of money supply, investment, and institutional consumption unveiled since the fourth quarter of 1989. In overall terms, however, the extent to which the economy has recovered still falls far short of what the national plan demands. This is demonstrated not only by the fact that the overall economic growth rate and market recovery do not yet meet the demand of the national plan but, even more tellingly, by swollen inventories, falling profits, and fiscal difficulties. Between January and August, the sales to production ratio for industry at the county level and above was only 95.8 percent, which represents a gain of 0.4 percentage points over the same period last year but is still appreciably lower than the 98 percent in normal years. In late September, the amount of funds tied up in the finished products of industrial enterprises within the budget was 113.9 billion yuan, up 26 billion yuan over the beginning of year. Between January and September, profits and taxes realized fell 21.5 percent (profits declined 57.9 percent). Between them, unprofitable enterprises more than doubled their losses. In the commercial sector, profits too have been declining sharply. Between January and August, the state-owned cooperative commercial sector realized 73.7 percent less in profits compared to the same period last year. The rippling effects have worsened the budgetary situation and widened the deficit even further.

As far as measures to get the economy moving again are concerned, there are problems regarding how successfully they have been implemented as well as structural problems.

Intermediate demand has risen sharply. This is demonstrated not only by the fact that working capital loans by banks shot up 100 billion yuan in the fourth quarter of 1989, but also by the fact that banks and credit societies have been pouring large sums of money into working capital loans, to the tune of 123.2 billion yuan by the end of September, 72.8 billion more than the same period in 1989. By late September, the balance of working capital loans had increased rapidly to 25.7 percent, compared to 12.9 percent at the end of September 1989, the third peak since 1986. As credit was eased, enterprise deposits have risen 70.7 billion yuan compared to the beginning of the year, and 74.3 billion yuan more than the same period a year ago. This shows that overall fund shortages among enterprises have eased considerably. Based on the pattern of loans and production in years past, the current level of lending indicates that the amount of funds pumped into the money supply can sustain a 10 percent growth in industrial production. In day-to-day life, all sectors still feel strapped for funds and are demanding further relaxation. But the crux of the problem is that the bottlenecks in social reproduction have not been completely removed. The benefits of fund circulation are limited. Instances in which funds are lost, wasted, or misappropriated are very common.

There is unevenness in the increase in consumer demand. While the incomes and consumption of urban residents have been rising rapidly, as has institutional purchasing power, the incomes and consumption of peasants has edged up only slowly. Because of the adjustment of the wages of workers, total workers' wages amounted to 197.3 billion yuan in the first nine months of this year, a real growth rate of about 9 percent after adjusting for inflation, the highest jump in the past two to three years. Meanwhile, the urban market for consumer goods has also entered a period of recovery, with commodity retail sales up 3.4 percent over the same period last year. If we factor in the fall in urban retail prices, the actual growth rate of consumption is even higher. Institutional consumption has been on the plus side since June, increasing steadily month after month and rising 11.9 percent in September over the same month in 1989, higher than the 8.8 percentage point increase in household consumption. Between January and September, institutional consumption grew 0.5 percent over the corresponding period in 1989. Peasant earnings and consumption have not yet recovered. This is shown by only by the widening price scissors between industrial and agricultural products, which means that peasants increase output without making more money and continue to suffer a negative growth in incomes. It is also shown by the drop in consumer goods and agricultural capital goods purchased by peasants. Between January and September, the peasants' per capita cash incomes were 447 yuan, up 1.1 percent over the same

period last year, but actually down 5.1 percent after factoring in inflation. During the same period, peasants purchased 5.1 percent less consumer goods than the same period last year and a mere 0.3 percent more capital goods, again a negative growth when inflation is taken into account. The sluggishness of the rural market is a drag on the recovery of the market nationwide.

Investment demand picked up steam in the third quarter but has not completely turned around. There are "two fasts, two slows" depending on the level. First of all, investment by units owned by the whole people has been quickening by the quarter, holding steady in the first quarter but increasing 5.9 and 11.2 percent in the second and third quarters, respectively. A total of 135.3 billion yuan worth of fixed assets investment were completed in the first three quarters, up 7.3 percent over the same period a year ago. On the other hand, investment by the collectively owned sector in townships and towns and individuals in townships and towns have rebounded more slowly, with investment completed in the first half of the year down 8.3 billion yuan, or 10.2 percent, from the same period last year. Second, capital construction investment has been picking up strongly, with 85.2 billion yuan worth of investment completed in the first nine months, up 10.1 percent compared to last year. But the funds are scattered and the number of new projects remains high, so they have been less than effective in stimulating the economy. The slide in investment in modernization and transformation has been reversed, but the upturn has been halting and still falls short of target. Thus far 35.7 billion yuan worth of investment has been completed, a mere 2.3 percent gain over the same period in 1989.

An immediate reason why these measures, designed to inject some life into the economy, have not worked as well as they should is the emphasis of the financial policy earlier on intermediate demand. Consequently, ultimate demand, particularly effective investment and rural demand, remains soft, making it difficult to remove the bottlenecks in the cycle of social reproduction.

As for the underlying reasons, the most important one is that the current economic system and operating mechanisms are not completely sound.

Economic stimulating measures slow to work, the halting progress of adjustment, swollen inventories, falling profits, and fiscal difficulties. They all have something to do with the above. Because the various economic relations have not been straightened out and the ability to regulate and control the macroeconomy is lacking, what limited capital goods we have are not optimally allocated. Regional separatism and market blockade have disrupted the normal circulation of capital goods and exacerbated structural irrationalities. The structure cannot be optimized, the effort to improve profits is hampered, and economic recovery is impeded. At a time when resources are not yet optimally allocated, technology is not advancing as rapidly as desired, management is less than effective, and growth rate-orientation is

still strong, the absence of a specific growth rate means the absence of corresponding results. But if we pursue overly high growth when the structure has not yet been rationalized, we run the potential risk of making inflation worse. This shows that if we just confine our effort to regulating and controlling demand without resolving the underlying imbalances, we will have difficulty improving economic results in a fundamental way.

Some Opinions on Future Economic Work

As social demand further rebounds, production, construction, and circulation would gather steam and the economy would continue to recover, but it will be some time before the various stimulating measures achieve their effects. A lot of hard painstaking work remains to be done. Meanwhile, as a delayed response to the earlier move of pumping large sums of money into the economy, potential inflationary pressures have been building up. Accordingly, we must improve macroeconomic regulation and control, putting more teeth into it. While the thrust of macroeconomic decision-making and management should be the early full implementation of measures designed to ease the economy, we must strictly hold the line on total volume and avoid overheating the economy and sending inflation soaring once again. In addition, we should promptly put into effect appropriate reform measures centered on the need to adjust the structure and improve performance. A serious effort should be made to fully mobilize the initiative of all sectors in the period of economic rectification so as to better manage the macroeconomy and energize the microeconomy, resulting in an economy that is robust yet orderly overall. We should take pains to successfully deal with the following issues in the field of macroeconomic regulation and control in the immediate future.

Aggressively implement measures already introduced that are designed to ease the economy and channel demand in the right direction at the right time to further stimulate the economy.

- Step up the inspection and supervision of national policies and plans. It is proposed that all localities and sectors reexamine rigorously every measure already introduced that is designed to ease the economy in order to reduce conflicts, remove obstacles, and improve work efficiency.
- Adjust the direction of stimulating measures as appropriate, increase inputs in ultimate demand, and control the expansion of intermediate demand as appropriate. Make every effort to raise the proportion of fixed assets loans to about 15 percent of the increase in loans of all kinds in order to support key project and technological transformation in mainstay enterprises and further revive effective investment. Strive to ensure that fixed assets investment for the year equate the actual workload last year.
- Make every effort to increase monetary investments in the countryside. It is proposed that the share of agricultural loans be raised to about 22 percent to aid

the procurement of agricultural byproducts, to prepare for agricultural production this winter and next spring, and to meet the need of nonagricultural adjustment. Make sure that peasants' incomes go up as they increase production. Improve the rural commodity purchasing power. Intensify price management in the rural market to lessen the burden on peasants. Increase the production of agricultural capital goods and articles of daily use popular in the countryside to help the rural market bottom out as soon as possible and spearhead the full recovery of the market. Maintain the peasants' enthusiasm for production so that agricultural production next year remains on a steady course.

Adhere to the principle of holding the line on total volume. Exercise the right degree of macroeconomic control. Strictly control newly introduced measures designed to ease the economy. In the first three quarters of this year, aggregate social supply exceeded demand by 2.5 percent or so. In the past few months, however, social demand, particularly bank loans, has soared. New loans in September alone amounted to about 50 billion yuan, 25.8 billion more than the same period a year ago. In the same month, a net 12.2 billion yuan were pumped into the money supply, 11.95 billion yuan more than the same period last year. We should look out for excessive increases of this magnitude and prevent a recurrence of what happened in 1984 and the fourth quarter of 1986 when lending got out of hand, which upset the relations between aggregate social supply and demand for the entire year, undermining economic stability. Accordingly, we must tighten credit management and control the scale of lending properly. Show all quarters how to concentrate their energies on utilizing what funds they have on hand fully and effectively in order to avoid another round of economic overheating and a fresh and worse bout of inflation. At the same time, make the examination-and-approval of capital construction projects more rigorous. Step up the management of projects just begun as well as those already suspended to prevent the overall scale of capital construction from expanding unrealistically.

Take pains to make the most of the dual function of economic planning and the market mechanism. Accelerate the adjustment of the industrial structure and product mix. The state should concentrate its resources on the adjustment of the increase in volume and use a variety of tools to raise the necessary funds to expedite developments in agriculture, energy, transportation, communications, and the raw materials industry as well as create a favorable policy environment for the adjustment of the existing volume. To adjust the existing volume, we should focus on formulating sound laws and regulations to gradually make it possible for market mechanisms to regulate and guide while the state limits itself to running a tiny handful of mainstay enterprises and monopolistic industries that impact the nation's economy and people's livelihood. Practice proves that socialized mass production requires both strong state

regulation and control and active reliance on the market to solve outstanding problems and make adjustment work.

Further clear up and rectify the circulation order to speed up the proper circulation of capital goods. First, formulate nationwide commodity circulation laws and regulations, abolish local protectionist policies instituted by various local governments, and put an end to local separatism. Second, in response to the need to energize circulation, we should improve all policies relating to monopolies introduced in the first stage of the drive to improve the economic climate and rectify the economic order. The scope of the monopolies should be reduced as appropriate. Reduce administrative interference in the sale of commodities like color TV sets, chemical fertilizers, and steel. Help make production and marketing dovetail. Third, tighten the inspection and supervision of all labor fees and charges. Prevent prices from getting out of hand and taxes from being lost. Increase government revenues as appropriate.

Diligently develop an export-oriented economy and send some enterprises and products to compete on the international market. Even as we improve the foreign trade management system, we should further straighten out the exchange rates to make exporting a profitable proposition for enterprises. Turning to the use of foreign exchange, we must further improve macroeconomic management and use it more effectively. Avoid wasting what limited foreign exchange we have on unnecessary imports and exports. Proceeding from the main task of the second stage of the drive to improve the economic climate and rectify the economic order, we must do more than pursuing economic growth at a suitable pace. We must also pay attention to the rationalizing of the economic system and operating mechanisms. The adjustment of reform in effect is the redistribution of all kinds of economic interests. Without first reforming the social security system, other reforms cannot proceed in a stable environment and adjustment will be difficult. It is proposed, therefore, that we speed up all reforms centered on the perfection of the social security system and remove all institutional factors that hamper economic adjustment to create basic conditions for improving economic results significantly.

(The writer is deputy director of the comprehensive office, State Statistics Bureau.)

Analysis of Current Economic Situation

91CE0192A Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 45,
12 Nov 90 pp 10-12

[Article by Bing Shan (0393 1472): "An Analysis of China's Economic Situation"]

[Text] Although the Chinese economy has been stable in the more than two years since the program of improvement and rectification began, the industrial economy has yet to escape the doldrums, and the resulting losses have

been shocking. Today, the only way to develop the economy in a healthy manner is to free the economy of various limiting factors and to deepen fundamental reforms of economic structure.

No country in the world today has seen as much economic upheaval in a short year as China has, and I am afraid that there is not a single economist in the world who can lay bare the internal mechanisms of Chinese economic development. The program of improvement and rectification is now being carried out. In these unusual times, irregular economic activity has become even more irregular.

Fuzzy Economic Trends

1. Industrial production unsteady.

In the face of economic difficulties in early 1990, the Chinese government at every level concentrated its forces and strengthened its organization and management of industrial production. The great masses of workers and staff in enterprises have made a great effort and enabled industrial production to reverse its downward slide after a six-month slump. It achieved a positive growth rate again in March, rose to 4.2 percent in May, and reached 5.9 percent in June. However, it unexpectedly fell to 2.9 percent in July and rose again to 4.6 percent in August. Breaking down these figures according to system of ownership, the cumulative growth rate from January to September for industrial production was only 0.7 percent for enterprises under the ownership of the whole people, while it was 2.5 percent for enterprises under collective ownership. Further breaking down these figures, industrial production in urban collective enterprises fell 1.4 percent, while it rose 7.4 percent in township enterprises. Breaking down these figures by industrial sector, light industrial production rose 3.7 percent, while heavy industrial production rose 2.6 percent. Further breaking down these figures, the rate of decline in production of electrical machinery gradually fell, and the rate of growth in the production of energy resources as well as raw and semi-finished materials fell noticeably.

2. Market sales alternate between brisk and sluggish.

Industrial production began to climb out of a trough in the first quarter, and consumer goods markets finally began to show a turnaround late in the second quarter, but total retail commodity sales by the national commercial system from January to September still fell somewhat from the same period last year. Sales of only a bit more than 10 percent of the commodities supplied by the major industries grew, and total procurement volume of only about 40 percent of all products grew, while it fell more than 50 percent. Even though industrial enterprises did a lot of work to improve product quality and expand direct sales, and commercial enterprises also sought ways to increase sales, little success was attained. Capital goods markets began to slump in late 1990, and are still caught in the doldrums. From January to September,

total sales of the major materials by the national materials system fell by nearly 6 percent. Although procurement volume began to rebound in the middle of the second quarter, cumulative procurement volume and sales volume still fell by nearly 10 percent. By late September, inventories in commercial enterprises had risen by more than 10 percent, and they had risen even more in materials enterprises.

3. Foreign trade activities carry on a one-man show.

Under the pressure of the recession in domestic markets, enterprises have been forced to concentrate more of their forces upon the production of export commodities. The situation with the export of industrial products stands in sharp contrast with the situation in domestic markets. From January to September, total exports (especially total exports of the major industrial products) rose by about 15 percent in comparison with the same period last year. The proportion of total exports accounted for by industrial products also rose somewhat over the previous year. Procurement of industrial products by the foreign trade sector also rose by about 20 percent. Imports continued to fall, so the foreign trade surplus was maintained.

After undergoing the severe test of improvement and rectification, the coastal economy has recovered its momentum. From January to August, foreign-invested enterprises (FIE's) and other types of industry grew by 41.1 percent.

4. Economic benefits have continually fallen.

In the last few years, the economic benefits generated by Chinese enterprises have gradually fallen. The funds-to-profits ratio of industrial enterprises within the state budget has fallen more than six percentage points since 1984, while it has fallen nearly five percentage points for state-run commercial enterprises. This year, within the context of uneven economic development, economic benefits have continued to fall. The profit per unit of output value for industrial enterprises is less than 5 percent. The sales-to-profit tax ratio for state-run industrial enterprises within the state budget only grew 0.4 percent from January to September in comparison with the same period last year, while costs for comparable products rose 6.3 percent. Total profits fell 57.9 percent, total profit taxes fell 21.5 percent, profits handed over to the state fell 7.1 percent, the proportion of money-losing enterprises rose by ten percentage points over the previous year, and the total amount of money lost by unprofitable enterprises more than doubled. Due to the influence of the market slump, industries in which production rebounded the quickest suffered the worst losses, and their production also fell quickly in the third quarter. For example, the growth rate for raw coal production was faster than the growth rate for industry as a whole, and piled up inventories and losses were also relatively severe. By the end of August, coal inventories had already increased by more than 40 percent over the

same period last year, and the production rate in September had fallen by 9.3 percentage points from the first quarter.

The Real Problem Behind the Phenomena

1. Investments stagger to fulfillment of targets.

Industrial production and fixed asset investment basically grew simultaneously this year in direct proportion to each other. Although industrial production grew 3.1 percent from January to September, when computed in terms of comparable prices, it was still negligible in comparison with the same period last year. However, it is still fairly apparent that it began rising steadily in March. Whether this leading rebound of market demand for this type of industrial production represents healthy economic development depends on whether it will spark a revitalization of markets, or whether markets will continue to slump and the economy loses its momentum and goes into another tailspin. Looking at the problem from the standpoint of the sudden drop in the monthly chain index for industrial output value, which dropped more than 10 percentage points in July, the latter danger is not nonexistent. Of course, the exact aftermath will depend upon what factors spur this rebound in production. Viewing the problem from the standpoint of the economic situation over the last three quarters, the rebound of industrial production that occurred from March to June primarily depended upon the issuance of large amounts of loans for operating funds. However, increased inventories of finished products did not differ much from the amount of increased loans issued by banks in the same period. Precisely because the stimulus of market demand was lacking, production dropped off sharply in July.

2. The market still lacks the power to stimulate the economy.

Viewing the problem from the standpoint of cumulative market supply and demand from January to September of this year, the expansion of demand was readily apparent. First, funds already invested had increased 7.7 percent over the same period last year. Second, wage income for workers and staff had increased by more than 11.2 percent over the same period last year. Third, loans for operating funds had more than doubled over the same period last year. Fourth, export demand continued to grow. There were also several reasons why markets continued to perform sluggishly: 1) The growth of investment demand has not yet reached the required volume, and funds which have already been invested are currently in the process of being converted to real demand. 2) About 30 percent of fixed asset investment is being used for renovation and upgrading, and will not generally increase employment. What is more, the proportion of investments used for new construction projects fell by more than 6 percentage points in comparison with the same period last year, while the proportion used for upgrade projects rose by more than five percentage points in comparison with the same period last year.

Although reproduction which has been expanded in qualitative terms may increase the income of workers and staff in enterprises, a small part of the additional income of workers and staff will not be translated into basic consumption; rather, it has usually been put into savings in order to prepare for future purchases of high quality consumer goods. 3) Although the wage income of workers and staff has grown relatively quickly as a result of wage readjustments, the new savings of residents during this same period have been equivalent to 76 percent of total wages for workers and staff. Total retail sales of social commodities may post a relatively large rebound in the fourth quarter, but growth for the entire year may only be about 5 percent. Calculated in terms of comparable prices, this does not represent a clear improvement over the slumping market of the same period last year.

3. Enterprises cannot carry a heavy load.

At this time, Chinese enterprises are in very difficult straits. Many enterprises, especially urban collective enterprises, are faced with continually increasing numbers of waiting-for-employment personnel because their production has been suspended or partly suspended. Even though interest rates for loans have been reduced time after time, there are still continual complaints of excessively high interest rates. Relatively stiff taxes and falling retained profits are one of the main causes of current enterprise difficulties. In a fundamental sense, an "excessively heavy" burden for enterprises is the inevitable result lowered economic benefits. Furthermore, it is precisely the current production environment which has caused the economic benefits generated by enterprises to fall continually. In particular, in the continued market slump, enterprises have insisted on maintaining their level of production, more than 60 percent of their products have gone to inventory, enterprise production costs have grown higher and higher, and the consumption power of enterprises has naturally grown weaker and weaker. Falling economic benefits from enterprises is also the fundamental cause of falling profit retention by enterprises, which has in turn led to a decreased enterprise funds. Statistics indicate that the proportion of fixed operating funds of industrial enterprises within the state budget accounted for by their own funds dropped from 49.15 percent in 1984 to 22.79 percent in 1989. Expansion of enterprise production has inevitably been excessively dependent upon bank loans, so the pressure upon enterprises to repay loans and interest has grown greater and greater.

4. Structural change has been infinitesimal.

The fact that economic restructuring cannot keep up with changing social demand is one of the main economic conflicts today. Readjusting the product mix as well as the enterprise organization and structure which was formed under the old system, and pushing the rationalization of industrial structure, are the core tasks of improvement and rectification. However, readjustment of the product mix has been limited to increasing

production of products for which supply does not meet demand, decreasing production of products which are in excessive supply, increasing variety, and improving quality. Very little progress has been made in developing new products. About 20 percent of all industrial products sell sluggishly or not at all. For structural reasons, enterprises which engage in redundant or blind production can only be temporarily closed, suspended, merged, or transferred, and their assets and labor force cannot easily be reallocated. Backward production equipment cannot be decisively eliminated; it is put back into use as soon as conditions permit. With respect to the problem of the growing burden upon enterprises, we have repeatedly lowered interest rates on loans without having first gained a clear understanding of the cause of the problem, with the result that some of the enterprises that we have been protecting should actually have been eliminated. In particular, the investment funds of Chinese enterprises now come primarily from bank loans. In this situation, low interest rates on loans will make it possible for some money-losing construction projects to make a profit. This will spur another explosion of social investment, which will lead in turn to decreased benefits from investment. None of these things facilitate industrial restructuring, and they all make it more difficult to consolidate what has already been gained.

Prospects for Development Do Not Merit Optimism

1. The economy is still unable to enter into a healthy cycle.

At this point, market conditions are still difficult to predict. Total retail sales of social commodities in August, September, and October to a large extent posted a "rebound" in comparison with the slumping market of the same period last year. Of course, under the gradual impetus of demand which had already formed, even with the fever which followed upon the Asian Games, market sales will still continue to rebound. However, because agricultural harvests have been relatively good, 40 percent of funds invested throughout the whole year will be concentrated in the fourth quarter and in the habitual effort at the end of the year to fulfill output targets. The third quarter recovery of industrial production will accelerate, and the slowness of the market rebound combined with the acceleration of production development will further increase inventories. The lag time between the factors mentioned above and falling production in heavy industry and raw and semi-finished materials industries will become shorter. In reality, the momentum of growth in the production of energy resources and raw and semi-finished materials will gradually become weaker. For example, the rate of growth in the production of raw coal was only half as fast in the third quarter as in the first. In short, if we are not able to deepen reform of the economic structure or resolve underlying structural problems, the entire economy will not be able to enter into a healthy cycle within the near future. The pall cast by the continued market slump and a renewed production slump will be difficult to escape.

2. Difficulties with fiscal revenues and expenditures may very possibly be exacerbated.

The structure of the primary allocation of national income underwent change this year that provoked much thought. At the same time that income for banks as well as workers and staff increased sharply, enterprise income and fiscal revenues have fallen sharply. This shows that the burden caused by declining economic benefits generated by enterprises will be shouldered primarily by enterprises themselves and by the state's fiscal coffers, and the problems of enterprises will still further weaken the state's fiscal resources in the end. Not only has the lowering of interest rates for bank loans failed to resolve the problem of declining economic benefits from enterprises, but declining bank profits will reduce fiscal revenues even further. In recent years, profits handed over to the central government by banks have increased (reaching 27.1 billion yuan by 1989), becoming one of the main sources of central government fiscal resources. However, this is only one facet of the problem. Another facet is the fact that the state, under pressure to stabilize domestic market prices and the structure of domestic market demand, has pumped out huge quantities of money in the form of price subsidies and subsidies to make up for enterprise losses. In the first half of this year, China experienced a fiscal deficit for the first time in history. From January to September, the growth rate of fiscal expenditures exceeded that of revenues by thirteen percentage points. It is estimated that the fiscal deficit for the entire year will exceed that of last year. In order to resolve our fiscal problems as well as the difficulties of enterprises, we should step up efforts to get rid of excess inventories. Looking at the problem from the standpoint of commodity sales by the Asian Games Procurement Center, high-quality, low-priced commodities still sell well. Therefore, apart from working hard to improve product mix, enterprises should sharply reduce prices for some of their slow-selling commodities in order to get rid of them. It would at least be better to recover some funds than to keep products in inventory for a long time and continue paying interest.

3. The danger of inflation still exists.

Since the third quarter of 1989, large amounts of funds have been issued continuously. The first issue (more than 80 billion yuan intended to get the economy moving) was made late last year in order to break the enterprise debt chain. The second issue (another 130 billion of "fine-tuning funds") was made early this year to revive production. The third issue (18 billion yuan) began to be released in the second quarter of this year in order to further stimulate production and expand loans for fixed asset investment. The delayed effect upon money supply of the large amount of loans released during the previous period has begun to become apparent in the second half of this year. Money supply has risen sharply, and it is estimated that total loans this year may exceed the adjusted target of 200 billion yuan. Under these circumstances, in which demand has built up gradually and been unleashed all at once, there are

three situations which could very possibly occur. 1) Half-hearted macroeconomic management may result in runaway investment which is not in line with industrial policy. The downward adjustment of interest rates could result in the softening of restraints upon credit supply, and it could also lead to the early reappearance of "overheated demand." In the third quarter of this year, we need to be especially vigilant to prevent local governments from undertaking too many projects and running up big debts. 2) In terms of the current situation, although prices are relatively stable and have continued to fall in comparison with the same period last year, this type of stability rests primarily upon the fragile foundation of administrative measures and large increases in fiscal subsidies. What is more, the monthly cycle ratio index is still at about one percentage point per month. In particular, structural price rises are still quite pronounced. Prices for clothing, agricultural means of production, and books and periodicals, as well as fee standards for noncommodity services have all risen more than ten percentage points. Furthermore, there has been too much emphasis upon "economic stability" and price stability, and this has not had a totally positive effect upon market sales. 3) Due to the rigid relationship between falling economic benefits from enterprises and increasing incomes of workers and staff, rapidly rising costs for comparable products will continue to spur inflation. For this reason, having carried out preliminary relaxation of funds management, we should further readjust interest rate structure, implement the policy of differential interest rates more effectively, and issue loans in a selective manner in order to suppress the growth of demand for funds and spur economic restructuring. If market sales have not demonstrated a clear turnaround by the end of the year, previous demand inflation will become cost inflation early next year.

After two years of improvement and rectification, the "stability" of China's economic order is readily apparent, but this "stability" has a negative lack of activity. The entire industrial economy has been in a trough since the third quarter of 1989, and has not been able to free itself from the morass in over a year. This has resulted in a shocking waste of labor and material. If the problem of economic structure is not resolved during the current program of improvement and rectification, it would be impossible to make up for these huge losses. The only option today is to resolutely free ourselves from various limiting factors, deepen fundamental structural reforms, create necessary conditions for structural readjustment and normal growth of demand, further stimulate markets, and enable the economy to develop in a healthy manner.

Zhang Zhuoyuan Forecasts Price Reform in 1990's

91CE0282A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 12, 11 Dec 90
pp 3-9

[Article by Zhang Zhuoyuan (1728 0587 0337), director, Finance, Commerce, and Commodities Institute, Chinese Academy of Social Sciences; dated October 1990: "Some Basic Thoughts on China's Price Reform in the 1990's"]

[Text] China's 10-odd years of experience in price reform prove: The progress and effectiveness of price reform are, to a very large extent, conditioned by the macroeconomic environment and an appropriate degree of economic growth. In recent years, many economists have gained a common understanding of some important sectors of China's economic development during the 1990's, namely: There is the need to first stabilize the economy, then maintain growth at moderate rate, increase efforts to improve its structure and raise efficiency, and, by deepening reform, have the economy move into a benign cycle. In devising an overall plan for price reform, this has to be the background as we closely support economic development and steadily push on with our reform.

I. Our main objective is to establish a system in which the prices of a small portion of commodities and services are controlled by the state and prices for the larger portion of other commodities and services is subject to market regulation.

In my opinion, the objective of price reform is to straighten out price relations and rationalize the structure of price parities and price differentials, and also to change the price formation mechanism, shifting from administratively-fixed prices to market-shaped prices for most commodities, services, and key elements. The more important of these two objectives is the reform of the price formation mechanism, because only by shifting the pricing mechanism can we attain a rational price structure or maintain it constantly in a rational state.

Great progress has already been made in improving China's price formation mechanism during the 12 years of reform: The unitary form of planned prices has been changed; somewhat over half of all commodity and labor service transactions are now transacted at prices determined wholly or in part by the market. Many acknowledge that since the start of reform, China's economy has become brisker day by day, markets are thriving, and people's livelihoods are rich and colorful; all of these benefits have been brought about largely by the gradual deregulation of prices for many commodities and services.

Since pursuing the policy of economic improvement and rectification, comrades at several symposia on price theory have voiced skepticism about the feasibility of deregulating prices for most commodities and services. Some comrades have even proposed returning to the system of planned prices (in the spring of 1990, at a symposium sponsored by the State Planning Commission's Institute of Planned Economy, a highly regarded economist proposed that over 80 percent of the means of production be subject to state-planned prices). They seem to assume that economic stability and the socialist planned economy can be maintained only by instituting planned prices. This obviously touches on the question of our choice of an objective in price reform. If the objective of reform is not clear, the reform is bound to end in confusion or possibly even fail halfway through.

Some oppose price deregulation because it may cause inflation in commodity prices. Actually, under the traditional system, price control concealed a latent inflation. Once prices were freed, inflation was released, and that naturally brought about inflation of commodity prices. However, we must realize that if no further expansion of currency occurs after prices are deregulated, i.e., if we do not resort to a large-scale issue of currency in advance of supplies in order to stimulate economic growth, this rise in commodity prices—restricted within the scope required by a rational adjustment of the price structure—cannot be of too large a dimension. For instance, it is now estimated that straightening out price parities, including price adjustments and price deregulation, may possibly result in a 50- to 70-percent rise in the general level of commodity prices. If prices for most commodities and services are freed up and rational price adjustments accomplished within 10 years, the average annual rate at which commodity prices will rise due to this deregulation and adjustment will not exceed 5 percent. During the period from 1984 to 1989, commodity prices rose steeply. The general index of retail prices of social commodities rose 72.66 percent in these five years, for an average annual rate of increase of 11.54 percent. It is generally acknowledged that it was mainly the new expansion of currency, and not the release of latent inflation, that brought about this harmful effect. According to estimates in a 1989 research report by the World Bank, about 50 percent of China's commodity price increases from 1981 to 1987 must be ascribed purely to new currency expansions. Because China issued currency at an unprecedented scale after 1984, it is safe to assume that most of the commodity price increases during the period from 1984 to 1989 were induced by the new currency expansion. If from now on we truly abandon the policy of currency expansion and essentially restrict money supply to the proper requirements of economic growth and economic monetary needs, continuing price deregulation and rational price adjustments in proper stages, it would not bring about huge increases in commodity prices. The rate of commodity increases could very quickly be brought down at least 2 percent, and after further effort could be held down to about 5 percent.

Could the return to the system of planned prices, i.e. a system in which prices are fixed administratively, maintain economic stability? In the early days of the economic improvement and rectification movement, certain administrative measures were taken to cope with the period's grim economic situation. These measures included freezing all or some commodity prices and setting ceiling prices, which was quite necessary. But we must also realize that such measures were only effective for a limited time (generally six to 12 months), and could only be kept up as temporary, extraordinary measures. International experience indicates that, if it is not possible to gradually balance the main entities involved and cool down the economy during the limited breathing spell gained by exercising such rigid administrative measures, a new round of much larger and fiercer commodity

price increases is bound to follow immediately. Generally speaking, stabilizing commodity prices through administrative means and paying the price of huge financial subsidies—what people often call “getting money to buy indices” or “purchasing stability with money”—will become an increasingly heavy burden for public finance, and will be absolutely impossible to maintain for any length of time. Domestic and foreign experiences indicate that the subjective price fixing inherent in the system of administrative price fixing certainly runs counter to the law of value and conflicts with the requirement to develop a commodity economy. Even though administrative price fixing may at times be beneficial for short-term economic stability, it is still detrimental to long-term economic development, because price distortions caused by administrative price fixing are a major reason for imbalances in the economic structure and the inhibition of economic growth. To achieve stable and long-term economic development, we must reform the system of administrative price fixing. Namely, we need a system which entails planned guidance and macroeconomic control and also entails deregulation of prices for most commodities and services.

Economic structural reform in a socialist country must be essentially market-oriented, because the original system is one that rejects the commodity-currency relationship and the market mechanism as the major, decisive element. However, market-oriented reform does not at all reject the planned nature of socialist economy. Market-oriented reform must be closely coordinated with planned guidance and macroeconomic control. This is also true in the case of price reform. On the one hand, we must deregulate prices for most commodities and services, and have these prices only indirectly controlled by the state. On the other hand, the state must maintain direct control over a few key commodities and labor services; set fixed, planned prices; and furthermore must use economic, administrative, and legislative means to control the most important price parities, interest rates, exchange rates, wages, and other strategic prices, thereby controlling the overall level of commodity prices and ensuring their essential stability. In a word, we must control macroeconomic prices, but deregulate most microeconomic prices. This would be the most appropriate form for integrating planning and the market. Evidently, as macroeconomic prices are plan controlled, the deregulation of most commodity and service prices will not only not cause disarray in the price situation and chaos in the market and economy, but it will allow price parities for the various commodities and services to fully reflect the supply-demand relationship and the scarcity of resources. Changes in these relative prices will give very accurate economic signals to producers and traders, allowing them to promptly adjust social production and trading according to social needs, resulting in a much better coordination between social production and consumption. It will ultimately raise the effectiveness of resource allocation and microeconomic operations. This is the only way to achieve a benign

economic cycle and to fully utilize the superiority of the socialist economic system (including its planned nature).

II. Seize the opportunity to accelerate price reform; do not attempt to reduce the rate of price increases to below 5 percent when price relations are still seriously distorted.

The following are five favorable factors for China's accelerated price reform at the present time: 1) Two years of pursuing economic improvement and rectification have created a relatively facile and liberal market environment. 2) Although we shall continue pursuing economic improvement and rectification and implementing the retrenchment policy in the early 1990's, the extent of the retrenchment will be adjusted somewhat. 3) The objective of the second stage of our economic development strategy demands an average economic growth rate of only 5.5 percent, and this greatly reduces pressure on all quarters to seek rapid growth through currency expansion. 4) The rate of commodity price increases in 1988 and 1989 reached 18.5 and 17.8 percent respectively. This evoked vehement dissatisfaction among the general public, but it also raised the general public's psychological tolerance for some commodity price increases. 5) In 1990, planned commodity prices increased at the rate of 14 to 16 percent. In the first half of this year, they increased only 3.2 percent. This shows that the rate of commodity price increases has slowed significantly, essentially dispelling popular anxiety about further currency expansions.

Since September 1989 there have been several fairly large price adjustments, including large increases in the prices of passenger tickets, salt, and salt products, a lowering of the RMB [renminbi] exchange rate, and increases in railway and waterway freight rates, the prices of crude oil, coal, and nonferrous metals, and postal and telecommunication charges. None of these have led to any social repercussions worth mentioning or evoked any chain reactions. This proves that the favorable moment for accelerating price reform has already arrived. We must seize this opportunity and continue initiating further reform measures.

We must realize that after 12 years of reform, there have been some improvements in China's price structure, and there have also been major changes in the price formation mechanism. However, price relations still remain seriously distorted; contract procurement prices for grain and other agricultural products are inordinately low, as are prices for products of basic industries and tariff charges for public utilities, facts which have further intensified the imbalance in the industrial structure. Following the deepening of economic improvement and rectification, overall inflation has progressively slowed, and this problem is indeed being resolved. The tasks of raising efficiency with regard to resource allocation, adjusting the industrial structure, and raising economic efficiency are constantly becoming more conspicuous, and demand even more urgently that we should make

straightening out price relations the main, pivotal point in our efforts to move the economy into a benign cycle.

Price reform has to be accelerated, but without excessive haste. I believe that the "electric shock therapy" method adopted by some countries, i.e., the method of simultaneously deregulating prices of all commodities and services, including grain, is not suited to conditions in China, and would also conflict with the idea of gradual, progressive reform that China has decided on over the last few years. To proceed in that manner would thoroughly disturb the relationship between the various interests of the people, create serious social repercussions, adversely affect social stability, and be altogether too risky. We also have to recognize the backwardness of China's original commodity economy, and recognize that before liberation, China was not only unable to compare itself with Western countries with market economies, but was not even up to the level of India. After liberation—particularly after the three major transformations were basically accomplished by 1956—and up to 1978, a commodity-currency relationship was continuously frowned upon and attacked. As a result not only could there be no development of markets of any kind, but even consumer goods markets were quite deficient, and the supply of many important consumer goods was rationed. In recent years, market relations have expanded, but not fast enough, and they are far from forming a comparatively neat and complete system. If prices for most commodities and services were simultaneously deregulated based on the weak market relations at present, it would hardly be possible to arrive at regular market prices, or to establish a comparatively rational price structure, and, thus it would be impossible to realize the goal of quickly shifting and straightening out price relations. Of the countries that deregulated all prices at once and successfully straightened out their price relations, nearly all had market relations that had originally been well developed. Their markets, especially commodity markets, were well-developed and fully mature, so that after prices were again deregulated, these countries could quickly convert to regular market-regulated prices. Everyone knows that developing a market is a protracted process, something that cannot be accomplished in a short time. Even if the government gives its wholehearted support, a somewhat complete market system cannot be formed without devoting 10 or 20 years to the effort. As far as market and price reforms are concerned, the situation is not one of "getting where one wants to be through a one-time deregulation." In brief, according to China's prevailing national conditions, price reform must still proceed at a steady pace. It can, of course, proceed quicker if conditions permit. If, for instance, energetic efforts are made, reform could be achieved in eight to 10 years, transforming the price formation mechanism, basically straightening out price relations, and letting the price structure favorably guide the industrial structure to also develop in a rational direction.

We must also consider that in the 1990's, the period of the Eighth Five-Year Plan, reform measures—

comprising price adjustments and price deregulation—could be pushed forward within the scope of a considerable decline in overall price increases, compared with the increases in 1988 and 1989. However, when prices are still currently seriously distorted, we must not seek an immediate reduction in price increases to below 5 percent for commodities. This is because while straightening out seriously distorted prices, annual price increases of a certain magnitude—perhaps around 10 percent—can hardly be avoided in the next three to five years. A relevant department has estimated that if we intend to initially straighten out prices during the Eighth Five-Year Plan, the rate of annual commodity price increases may be allowed to remain at around 10 percent, or at best in the single digits. Of the 10 percent, 7 percent or so should come from price adjustments and price deregulation used to improve the price structure. Spontaneous price increases induced by premature currency issues should be kept as low as possible, e.g., to an annual rate of less than 3 percent. If we proceed in this way, this kind of reform will also be acceptable to the masses throughout society, as long as wage subsidies and the social security system keep abreast of developments. Reducing the rate of commodity price increases to below 5 percent is not impossible at the present, however it would prolong price reform. We could go ahead with the reform in somewhat larger steps after maintaining a low rate of commodity price increases for a time, but this would be bound to result in a steep rise in the commodity price index, as high as 18.5 percent, creating large increases and jeopardizing economic stability. This would obviously be unwise and would hardly be tolerated by the masses.

In the first half of 1990, the rate of commodity price increases has already dropped to 3.2 percent. According to the ideas expressed above, I believe it will be necessary to institute even more reform measures from now on. We must, increase the ex-factory prices of basic products sooner and to a greater extent; these prices have been been inordinately low for a long time, which has caused whole trades to suffer losses. We must also adjust all public utility charges equally. We must deregulate commodity prices for which supply and demand are essentially equal in the market, and must in particular deregulate prices for items of industrial consumption.

III. Reflect earnestly on a reform concept which combines adjustments and deregulation; from now on adopt as many measures of price deregulation as possible.

Since 1979, China's price reform has gradually moved along the line of thought that combines adjustment with deregulation. On the one hand, prices were constantly adjusted, and prices for agricultural products, energy resources, raw and semifinished materials, transportation, and postal and telecommunication charges, all of which were inordinately low in the past, have increased by large margins, and the price structure has improved to a certain extent. At the same time, prices for some products have been courageously deregulated, and an

increasingly larger number of agricultural sideline products and products for industrial consumption have been traded at market prices. Accelerated progress in China's economic development since the initiation of reform and the fairly rapid improvement in people's living standards are inseparably linked with the effectiveness of price reform.

The abundant practice of 12 years of price reform has provided us with many experiences and lessons which we must earnestly review, as they will allow us to initially recognize the law-guided nature of price reform. Among all this, the following is a problem which, in my opinion, deserves everyone's thought and attention: Commodity price adjustments frequently, or to a considerable extent, turn into repeated rounds of price increases, i.e. they become a major force in the large-scale rise of a whole range of commodity prices. This makes it necessary to appropriately assess the efficacy of any intended price adjustment.

In 1979, China raised procurement prices for agricultural products by a large margin, and narrowed the price scissors between industrial and agricultural products, thereby effectively stimulating the recovery and development of agricultural production, and in particular grain production. However, shortly after 1985, contract procurement prices for grain again fell into a "trough" of the price structure, resulting in inordinately low profits from grain cultivation, relatively speaking. The gradual increase in contract procurement prices for grain became an almost perennial and ubiquitous topic of discussion. During the early and mid-1980's, China repeatedly and calculatedly increased prices for energy resources and raw and semifinished materials, including various mineral products, which eased the distorted price situation somewhat. However, after 1987 the size of price increases for manufactured goods on average exceeded the size of price increases for energy resources and raw and semifinished materials (in 1988 and 1989, prices rose in the excavation, raw and semifinished products, and manufacturing industries at the rate of 24.8, 32.1, and 39.7 percent respectively). This showed a return to former irrational price parities, discounting to a great extent the results of all previous adjustments in the price structure. Actually, in a way this also amounted to repeated rounds of price increases. During the early stages of reform, we had already realized that if we were to straighten out commodity price relations, on the whole it would drive the general level of commodity prices up 50 to 70 percent. After 10-odd years of reform, the general index for retail prices of social goods had doubled (taking 1978 as 100, in 1989 the index was 203.4). As things look now, if we were to straighten out the distorted prices, we would again drive the whole range of commodity prices up another 50 to 70 percent. Apart from the fact that the original assessment of earlier figures was too low, the main reason was again that commodity price adjustments do result to a large extent in repeated rounds of price increases.

What produces the unwanted results mentioned above? I believe the following are the main reasons.

First, the erroneous macroeconomic policy. From 1984 to 1988, the state implemented an expansionary financial and monetary policy with the intention of using currency expansions to support rapid economic growth. However, this resulted in the rapid overheating of the economy. Under conditions of overall material shortages and ongoing expansion of currency, the rise in the general level of commodity prices was unavoidable. During these times of rising commodity prices, the state generally, or for the most part, controlled the prices of a series of most important products which had long been inordinately underpriced, such as grain, energy resources, raw and semifinished materials, so that their prices naturally rose comparatively little. It was to control the general level of commodity prices that the state, first of all, controlled the prices of these products and controlled the rate of their increases. The situation was quite different for those products whose prices had been deregulated or for products whose prices were not strictly controlled by the state, particularly in the case of manufactured goods. As sellers exploited the seller's market, where demand exceeded supply, chaotic or quite abnormal price hikes occurred, and there was no way to control these price increases. Even though the state, in this situation, did adjust the prices of basic materials upward substantially, it was due to the ongoing inflation that prices for manufactured goods quickly followed and caught up with the upward trend. Some even overtook the price increases for basic materials, resulting in repeated rounds of price increases that always ended up restoring the original inordinate price parities.

Second, the unsound microeconomic system. Because the state had been particularly eager to surrender some of its powers and profits to the enterprises in earlier reforms, and had neglected to put a necessary restrictive mechanism in place, while it was a seller's market with extraordinarily brisk demand, enterprises were free from any pressure to improve business management and raise efficiency. This was why, at a time when prices for energy resources and raw and semifinished materials were rising, enterprises did not direct their attention to their internal affairs, did not try to tap their available potential, improve business management, reduce consumption, or absorb some of the elements responsible for the rise in prices. Frequently, or to an increasing degree, they focused on external matters; they tried to cope with rising prices by raising their own prices and shifting the responsibility for price increases to others, thus taking advantage of the situation to reap extra profits through their own raised prices. Some investigations have proven that, in 1988, from 50 to 70 percent of the additional profits and tax revenues from enterprises were derived merely from price increases. In many provinces and municipalities, as many as 70 and 80 percent of commodities whose prices had risen had followed this trend of indiscriminate price increases. Furthermore, according to investigations in a certain city of Jiangsu

Province, the expenditures of 56 state-run enterprises in that city increased by 42 million yuan during the first half of 1988 due to price increases for raw and semifinished materials. At the same time, the sales prices of their own products increased by 48 million yuan, exceeding the price increases for raw and semifinished materials by over 10 percent. At present, many enterprises use price increases as the most effortless and effective way to raise profits. As one raises prices to offset others' price rises, everyone else is afraid to be late with their own price increases, and naturally the result is repeated rounds of price increases, which brings to naught all the state's efforts to give priority to adjusting prices of basic products upward.

Third, shortcomings in the price adjustment method. Due to the serious distortions in China's original price structure, it was often necessary to adopt planned price adjustment methods, avoid violent changes in the interest relations which a one-time deregulation of most commodity prices and service charges would have caused, and enhance the capability of controlling price changes, especially in the initial stages of reform. That is beyond dispute. However, we must also recognize that the price adjustments had inherent shortcomings:

1. The price formation mechanism was not changed at all, so that the adjustments could not possibly serve as a prime pattern of price reform, but rather had to be regarded as using adjustments to merely alleviate conspicuously irrational contradictions and to prepare the ground for price deregulation. Experiences proved that relying merely on price adjustments will never be sufficient for straightening out price relations. Even if they seemed slightly straightened out for a while, changes in the supply-demand relationship and in other factors would soon put them into a state of disarray again.

2. Implementing price adjustments without standardized criteria. The mechanism for price adjustments now works like this: he who shouts loudest will have his product prices adjusted first. There are no rational criteria that serve as a base, and cost accounting is chaotic, allowing anyone to adopt seemingly convincing data proving his product is in need of a price adjustment. Since there are no strict objective criteria, and everybody appears to have abundant data in his favor, the authority in charge might just as well consider adjusting prices in turn as a feasible alternative. This in fact amounts to sowing the seeds for repeated rounds of price increases.

3. An unbearable burden on public finance. In a time of a reform with a larger plurality of economic interest entities, the state is intent on adjusting prices for primary and intermediary products in a planned way. However, in places where income has increased due to these adjustments, departments and enterprises concerned will conceal income and report less than the actual amount as much as possible. On the other hand, where expenditures have increased due to the price adjustments, departments and enterprises concerned will inflate estimates and report more than the actual

amount as much as possible, demanding state subsidies to make good their extra expenditure. Obviously, financial authorities cannot possibly win when so many departments and enterprises account in this way. Every time there is a price adjustment, the state's finance departments will have to come up with money. Many good plans for price adjustments had to be shelved because public finance could not afford to pay the price. This has placed great limitations on price adjustments, especially on the scope and size of adjustments for basic products. Whatever could be accomplished was limited to adjusting merely a few items annually. In contrast, large amounts of manufactured goods had their prices increased or received hidden price increases by exploiting loopholes in a thousand and one ingenious ways.

In brief, the effectiveness of relying on the state to effect price adjustments in a planned way to straighten out commodity price relations will be limited. Apart from a few items of important commodities and labor services which require the state to set prices and effect price adjustments, all prices for the large majority of commodities and labor services should be considered for deregulation as soon as the time is ripe, and market regulation should be instituted so that prices more effectively reflect the supply-demand situation and the extent of resource shortages. For those commodities whose prices should be set and adjusted by the state, studies should determine, with due reference to prices for deregulated commodities, whether their relative prices are rational and what adjustments are needed. Proceeding in this manner will increase our knowledge of respect for the law of value.

IV. When merging dual-track pricing for means of production into single-track pricing, some commodities will have to be merged onto the planned track, but the majority of commodities will have to be merged onto the market track. We must guard against a trend to merge everything only onto the planned track.

The dual-track pricing system for means of production constitutes a conspicuous problem in China's present economic life. Converting dual-track pricing into single-track pricing is a requirement in our efforts to establish a functional mechanism of a planned, socialist commodity economy.

People in all walks of life have gradually come to realize that it is impossible to maintain a dual-track pricing system for means of industrial production over a long period, and that it is necessary to merge the two tracks into one and have only one price for each commodity. However, opinions differ as to how to effect this transition.

Some comrades have suggested making the transition to a single track within one or two years, and have opposed an excessively long transition period. I believe, considering that we still firmly maintain gradual progress in reform and that, at present, dual-track pricing has

become an established practice that is difficult to break away from (dual-track pricing is in effect for almost all important means of production), it will be impossible to abolish dual-track pricing for the whole range of commodities and institute single-track pricing within one or two years, even if we make establishing and developing a market for the means of production the focus of the present stage of deepening reform. We can only travel the road of dual-track pricing, whose scope is very broad at present. The pricing system for natural monopoly products and charges for public utilities even uses dual-track pricing at present, with large price disparities (generally involving a doubling of prices) and management loopholes. It is impossible to institute single-track pricing over the entire range within a short time. If one were to obstinately insist on merging the two tracks, it would cause huge frictions of interests and large-scale rises in commodity prices, and consequently adversely affect economic stability. Obviously, it would be a case of "more haste, less speed."

Straightening out prices for means of production requires that we first differentiate between products that must be directly controlled by the state and products that must be indirectly controlled. According to the principle of "integrating adjustment and deregulation, integrating adjustment and control," we must differentiate between the specific conditions in different trades and different products, progress from the simple to the more complex, and strive to initially merge the tracks during the later years of the Eighth Five-Year Plan, and basically accomplish the merger during the Ninth Five-Year Plan. In the case of a few items of state monopoly which are in short supply and of prices for important means of production or charges for public utilities—such as prices for petroleum, electric power, rail transport, air transport, and important nonferrous metals, and rent for public-owned housing—the prices and price adjustments, which combine adjustment with control, should be decided directly by the state. When gradually abolishing the dual-track pricing for these products, planned single-track pricing levels may be set according to the overall average level of planned and market prices. For a large number of machinery, electronic, and other products, and for raw and semifinished products where supply and demand are in balance, such as cement and glass, price deregulation could be the measure to adopt to change from dual-track to single-track pricing. For products for which a merger of tracks is not possible within a short time, there has to be a great effort to straighten out the multifarious planned prices and also to gradually narrow the price differential by upwardly adjusting planned prices, controlling prices for self-consumption, controlling demand, and by other such methods. This will alleviate contradictions and create favorable conditions for ultimately merging tracks.

In devising ways to move from dual-track to single-track pricing, it is also necessary to resolve the problem of choosing the right direction after the tracks are merged, namely, whether to move onto the planned or the market

track. Some comrades suggest that, when merging price tracks for industrial means of production, most should be moved onto the planned track, while only a few items of minor importance are moved onto the market track. In my opinion, this idea cannot be reconciled with the demand for deepening reform.

The original intention of instituting a dual-track pricing system was to gradually introduce market mechanisms into price formation and to soundly and steadily transform the original system of administratively fixed prices into a market price system that has planned guidance and is macroeconomically controlled. If a merger is achieved in the dual-track pricing system in the course of its development, and if the merger would for the most part not be onto the single-track market system but onto a single-track plan system, that would not be progress, but rather retrogression. If it is our intention today to resolve the problem of the dual-track pricing system for means of production, our basic starting point is to deepen reform. Contrary to the traditional system and its disdain for the market mechanism, the general trend of reform is the expansion of the functions of the market mechanism. Development and reform of the dual-track pricing system for the means of production is no exception. Resolving this problem demands that we expand the functions of the market mechanism, and not restrict these functions or return to the system of planned prices. This would, of course, go hand in hand with the state's ongoing planning, guidance, and macroeconomic control.

In brief, resolving the problem of the dual-track pricing of the means of production must be based firmly on reform, and we must strive to resolve the problem of the price formation mechanism and of expanding the functions of the market mechanism. During this transitional period, we must not expend our energies on determining price levels from specific calculations during the process of merging tracks. The problem of determining new price levels remains for products that should be merged onto the planned track. However, if most product prices are merged onto the market track, there will essentially be no problem of determining new price levels, as the prices will be deregulated and subject to market regulation. The state will also not adopt a completely laissez-faire attitude toward market prices, and will certainly not assume direct control by administrative means; instead, the state will use laws, regulations, and economic levers to indirectly regulate and control prices of these commodities and their relative price changes.

V. Overall Planning, Execution in Stages, Well-Coordinated Progress

To seize the opportunity and push price reform forward, it is necessary to formulate a reform plan and proceed in stages toward its execution as quickly as possible, in order to avoid struggling along in utter confusion.

In executing the overall plan, perhaps we may set up the following targets: Nominal prices, which—calculated

according to the amounts of transactions—are approximately 50 percent higher than prices regulated wholly or in part by the market at present, should be raised to 60 to 70 percent by 1995, and by the year 2000 they should be further raised to 70 to 80 percent. With regard to the price structure, during the period of the Eighth Five-Year Plan we should eliminate all signs of distorted prices, a phenomenon which has caused losses for all enterprises in the production field and which has caused “prices defying regulation.” We should also reduce price subsidies; apart from grain prices, we should gradually convert “hidden subsidies” into “open subsidies” for all other commodities, and have “open subsidies” become earned income. By the year 2000, prices should essentially be straightened out, the ratio of profits to investment should be more or less equal for every kind of commodity, some commodity prices should be linked to prices on the international market, and prices for key elements should be initially straightened out.

With regard to choosing the order of the price reform for various commodities and services, we may consider giving initial preference to reforming the prices for means of production, combined with reforming prices for agricultural products and service charges. This would include raising contract procurement prices for grain and other such products, raising house rents, and reducing price subsidies, followed mainly by changing prices for agricultural products and service charges, including further reductions in price subsidies and large-scale increases in house rents, combined with the initial straightening out of prices for key production elements. Prices for consumer goods will mostly be deregulated and subjected to market regulation. A portion of them will gradually be straightened out by reducing or abolishing price subsidies. Work in this respect could be started immediately. For instance, regarding grain sales prices, it should now be possible, according to different situations, to appropriately reduce the quantities of quota supplies and then later gradually change to a system which guarantees quantities without guaranteeing prices. Again, we must gradually reduce price subsidies for privately-used coal, gas, water, electricity, and city transportation.

In concrete terms, we may outline the following three stages:

First stage: from the present to 1992.

During this stage, we shall continue pursuing the policy of improving the economic environment and rectifying the economic order. While we continue implementing a policy of retrenchment in order to further stabilize the economy, there will be a relative loosening in the overall economic environment, which will create very favorable conditions for deepening reform. On the other hand, in order to coordinate the smooth progress of deepening economic improvement and rectification with the smooth progress in adjusting the product mix and industrial structure, we must accelerate price reform. Therefore, during this period we must use price adjustments to

resolve all conspicuously irrational price problems, focusing particularly on raising prices for coal, crude petroleum, nonferrous metals, electricity, and railway freight rates. We must select some means of industrial production and shift them from dual-track to single-track pricing. We must also raise contract procurement prices and unified procurement prices for grain and other agricultural products, and change from hidden to open subsidies in rationed supplies of agricultural sideline products to the people and coal for private use, exempting only grain rations for the people's consumption. At the same time, we shall again deregulate prices for commodities that were originally freed, but which came under control again in 1989. We should deregulate prices for commodities for industrial consumption and prices for means of production for which supply and demand is essentially balanced, or which show large supply flexibility. During this period, we must also gradually establish and perfect the state's price control system (for direct as well as indirect controls), and also formulate relevant rules and regulations. During price adjustments, we must emphasize coordinating all work with structural reform in the fields of public finance, taxation, and monetary affairs. When deregulating prices, we must emphasize coordinating work with market reform. We must carry out entire price reforms simultaneously with enterprise reform, and must closely coordinate it with reform of the macroeconomic regulation and control mechanism.

Second stage: from 1993 to 1995.

We must fully utilize the economic improvement and rectification movement, stabilize economic successes, and seize the opportunity to continue pursuing price reform. During this period, we should try to initially transform the means of production's dual-track pricing system to a single-track pricing system, and also more or less completely straighten out all prices for means of production. We must further raise contract procurement prices for grain and other agricultural products, so that their prices gradually approach market prices. We must restrict the amount of grain supplied at parity prices and raise list prices for grain that is distributed centrally. We must raise the rent charged for houses (in coordination with supplemental raises in wages) by a large margin, using it as a breakthrough point for the commercialization of residential houses. We must continue raising tariff charges for public utilities, having them cover costs as much as possible, and allow public finance's subsidies to decline.

The third stage: from 1996 to the year 2000.

We must continue straightening out prices for various commodities and services and resolve all residual problems with perfecting the price structure, including reducing price subsidies to within rational limits. While coordinating this with the establishment and development of markets for the various types of key elements, we must try to straighten out prices for key elements, and demand initial success in this area. We believe that,

during this period, the new economic system will gradually assume a dominant position in all social economic operations, that the national economy will gradually move into a benign cycle, and that price reform will by then also be able to catch up with the pace of reform throughout the entire economic system. This will spur the national economy to gradually achieve a higher degree of efficiency, and maintain stability in a well-coordinated development for a long period.

CPC Affirms Policy of Economic Reform

*HK2901014191 Hong Kong SOUTH CHINA
MORNING POST in English 29 Jan 91 p 8*

[By Willy Wo-lap Lam]

[Text] Beijing has reaffirmed its commitment to the "socialist road" throughout the 1990s, but indicated it would keep on introducing cautious reforms to boost competition and promote efficiency.

For the first time, the Chinese Communist Party has also defined in detail what it means by "socialism with Chinese characteristics".

Yesterday, the authorities published in full the party Central Committee's Proposals for Formulating the 10-year Programme (1991-2000) and the Eighth Five-Year Plan (1991-1995) for National Economic and Social Development, which had been endorsed by the seventh plenum in late December.

The reports stated that Beijing would pursue an annual growth rate of six percent in order to fulfil the goal of quadrupling the Gross National Product from 1980 to the year 2000.

At the same time, priority will be given to the development of certain sectors including agriculture, energy, transportation, infrastructure and defence.

The party committed itself to "deepening" reforms begun by senior leader Mr Deng Xiaoping in the late 1970s, including the open door and special economic zone (SEZ) policies.

The proposals said effective policies and flexible measures would be continued to further improve the SEZs and to consolidate and expand other open cities and development zones.

The document indicated price reform would be pursued in an active and prudent way, adding that during the Eighth Five-Year Plan, the scope of prices fixed by the Government would be reduced.

Reform of the whole economic structure would also continue to eliminate drawbacks in the system which were due to certain historical conditions, and an operating mechanism would be set up combining planning with market regulation.

The proposals claimed the new system would enable China to have the best of both worlds.

"Planning can maintain a proportionate development of the national economy and a rational disposition of resources while market regulation can play the role of keeping the superior and eliminating the inferior and adding vigour to economic development," the document said.

However, it is quite clear that in the coming decade, state planning—which tends to give more power to central government organs—will still be the major tool in economic policy-making.

Analysts say that both at the plenum and since, leaders including Prime Minister Mr Li Peng have put limitations on the reforms.

Mr Li has reiterated that price reform would only be pursued subject to the ability of the state and consumers to absorb the shocks.

Concerning the SEZ's, the Prime Minister has made it clear they would no longer get priority allocation of state resources.

In spite of the recent publicity given to the establishment of stock exchanges in Shanghai and Shenzhen, the Central Committee indicated its opposition to even limited privatisation, which had been on the agenda of ousted party chief Mr Zhao Ziyang.

The Central Committee decided to use China's resources to invigorate the 10,000 large- and medium-scale enterprises, which account for 60 percent of the taxes and profits of the industrial sector.

The proposals incorporated measures for rendering the enterprises more efficient, for example, through the separation of government and business operations, or "separation of ownership and the right of management."

For the first time since the banner of "socialism with Chinese characteristics" was raised by Mr Deng in the early 1980's, a detailed definition of the concept was given in the proposals.

Analysts in Beijing said the 12-point definition acted as a "bird cage" for limiting the degree to which market mechanisms could be introduced to liberalise the economic and political system.

For example, the country would strictly stick to the guidance of Marxism-Leninism, Communist Party leadership, and the dictatorship of the proletariat.

While the "private sector" is allowed, it will remain as a "supplement" to the economy, which will continue to be based on "socialist public ownership".

And while a section of the population could get rich faster than the rest through honest labour and lawful business operation, the state would encourage those who were better-off to help those who lagged behind.

Reflecting the growing power of the military, the proposals also called for efforts to strengthen the Army, and to increase defence spending.

PROVINCIAL

Heilongjiang Reports on 1990 Economic Situation

SK0403023391 Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 2 Mar 91

[Text] The 1990 Social and Economic Statistics Communiqué released by the provincial Statistics Bureau today shows that last year our province witnessed new progress within the national economy in the course of improvement and rectification. The overall social supply and demand were basically balanced. The trend of industrial slowdown improved somewhat. An exceptional agricultural bumper harvest was reaped, and commodity prices were brought under control. The whole national economy continued to follow a good trend.

He Quanbin, spokesman of the provincial Statistics Bureau, said: In 1990 our province's GNP was 67.600 billion yuan, and the national income was 56.600 billion yuan. After price factors were deducted, the increase was 6.9 percent and 4.9 percent respectively over the preceding year. The total industrial and agricultural output value was 110.400 billion yuan, up 5.8 percent over the previous year. The difference between overall social supply and demand dropped from 4.600 billion yuan in the previous year to 2.300 billion yuan. The total annual agricultural output value reached 24.538 billion yuan, up 25.1 percent over the previous year. Grain output totaled 23.125 million tons, and total output and per-unit area yield all showed an all-time record. The animal husbandry production situation also fared well—the number of draft animals, hogs, and sheep in stock increased by a large margin over the previous year.

The total products of the rural society during the year were valued at 37.030 billion yuan, an increase of 16 percent over the previous year. The industrial output value in 1990 totaled 85.851 billion yuan, an increase of 1.5 percent over the previous year. We witnessed a fairly good situation in such basic industries as energy and communications. The annual output value of light industry totaled 28.670 billion yuan, an increase of 4.7 percent over the previous year. Last year, our province's commodity prices were fairly stable. The annual total commodity retail price index rose by 4.9 percent over the previous year, which was lower than the previous year's rise by 9.1 percentage points. The total annual import and export volume of foreign trade reached \$1.490 billion, an increase of 11.2 percent over the previous year. The whole province signed 92 contracts utilizing foreign capital, involving 105.000 million yuan.

The annual income from the tourist industry came to 33.310 million yuan, an increase of 68 percent over the previous year.

The livelihood of the urban and rural people in 1990 also improved to a certain extent. The average wages of staffers and workers reached 1,850 yuan, showing a net increase of 2.4 percent over the previous year. The average per-capita net income of peasants was 670.8 yuan, up 11 percent over the previous year.

Jiangsu To Support Key Enterprises During 8th Plan

OW0503134291 Nanjing XINHUA RIBAO in Chinese 24 Feb 91 p 1

[Text] During the "Eighth Five-Year Plan" period, the province will concentrate on assisting the development of 203 large- and medium-sized state-run key enterprises, including Changzhou Diesel Engine/Tractor Group, Wuxi Television Factory, Suzhou Silk Printing and Dyeing Mill No One, and Nanhua (Group) Company, in its efforts to readjust the industrial structure, increase the stamina for sustained development, raise the overall quality of the province's industries, and facilitate the shifting of its economic development strategy.

Of the 203 enterprises, two are in the communications industry; 26 in the chemical industry; 14 in the silk industry; 13 in the metallurgical industry; seven in the construction material industry; nine in the pharmaceutical industry; 26 in the electronics industry; 38 in the machinery industry; 23 in light industry; 39 in the textile industry; one each in the coal, electricity, and grain industries; one supply and marketing cooperative; and two in commerce. Their primary products, totaling more than 100 types, are top-notch among their domestic counterparts and enjoy international fame. By the end of the "Eighth Five-Year Plan" period, most of their products will measure up to the advanced international standards of the late 1970's and early 1980's. Some products, improved through the absorption of advanced foreign technologies, will be able to replace imported counterparts.

These large- and medium-sized key enterprises, all having completed their first contract term, have good economic effectiveness, fine enterprise culture, and high technological and management standards. They have been assigned the province's major projects for the "Eighth Five-Year Plan" period concerning technical retooling, capital construction, and scientific and technological breakthroughs. The selection of these enterprises reflects the primary direction the province has set for its industrial development during the "Eighth Five-Year Plan" period.

During the new contract term, the province will take the following steps to assist these enterprises: First, it will continue the policy of "two guarantees, one link-up." The percentage of excess revenue retained by these enterprises, in general, will not be less than 80 percent. Special policies will be adopted to assist a small number of enterprises which "pay high taxes and make marginal

profit" and which are assigned major capital construction and technical retooling projects. Second, it will maintain the policy which allows the repayment of loans before paying taxes and encourage these enterprises to beef up their self-development capabilities. Third, it will strengthen its control and overall planning of these enterprises. It will try to ensure external conditions for these enterprises in compliance with the state's regulations concerning "dual-guarantee enterprises" and provide necessary guarantees to facilitate their execution of mandatory projects. Fourth, their capital construction and technical retooling projects will be examined and approved in accordance with project management procedures. As far as construction scope and funds are concerned, planning, economic, monetary, and financial departments at all levels must give top priority to such projects. Banks should actively assist these enterprises with their circulating funds for normal production. Fifth, as an incentive for readjusting product mix and developing new products, those designated as "advanced enterprises for technological advancement" by the provincial government and those developing strategic products or manufacturing major accessories for strategic products will be allowed to retain two percent of their sales as technical development expense. Sixth, these enterprises should make good use of their depreciation rates in accordance with state regulations. Conditions permitting, and with approval by financial departments, these enterprises may reduce the depreciable lives of machines on the production line by 30 percent. And seventh, governments at various levels should earmark no less than 20 percent of the foreign exchange retained by themselves for importing necessary technologies for the renovation and expansion purposes of these enterprises. They should also allow these enterprises to use regulatory foreign exchange [tiao ji wai hui 6148 0495 1120 0565] to repay foreign exchange loans.

FINANCE, BANKING

Article Views Extrabudgetary Funds, Reform

91CE0218A Dalian CAIJING WENTI YANJIU
[RESEARCH ON FINANCIAL AND ECONOMIC
PROBLEMS] in Chinese No 12, 5 Dec 90 pp 33-36

[Article by Huang Weijian (7806 4850 0256); Chen Yang (7115 2543), responsible editor: "Extrabudgetary Fund Growth in the Past Decade, and Basic Thoughts on Future Reform"]

[Text] Extrabudgetary funds are those for which collection, retention, planning, and usage are not included in the state budget according to the provisions of state laws, rules, or regulations. They exist as a special aspect of China's budget management system, which is different from that in other countries and determined by our particular national conditions. They have undergone a growth process from small to large, having grown by leaps and bounds in the decade or so since the Third Plenary Session of the 11th CPC Central Committee in particular. Their status in the state financial structure has changed from a "guerrilla detachment" before reform to the "main force" at present. They have been an important aspect of our socioeconomic life, and have played a key role in our reform and opening up to the outside world. And they have been indispensable to improvement, rectification, and deepening of reform.

I. Extrabudgetary Fund Growth Since 1979

Extrabudgetary funds amounted to 45.3 billion yuan in 1979, topped the 100-billion-yuan mark to reach 118.8 billion yuan in 1984, broke through the 200-billion-yuan barrier to reach 202.9 billion yuan in 1987, and had grown to 265.8 billion yuan by 1989. They grew 4.9-fold in the decade from 1979 to 1989. (For details, see following table.)

Amounts and Percentages of Extrabudgetary Fund Income for Various Units from 1979 to 1989

Income Year	Amounts in 100 Million Yuan				Percentages		
	Totals	Local Finance Departments	Administrative Institutions	State-Owned Enterprises and Their Responsible Departments	Local Finance Departments	Administrative Institutions	State-Owned Enterprises and Their Responsible Departments
1979	452.85	39.94	68.66	344.25	8.8	15.2	76.0
1980	557.40	40.85	74.44	442.11	7.3	13.4	79.3
1981	601.07	41.30	84.90	474.87	6.9	14.1	79.0
1982	802.74	45.27	101.15	656.32	5.6	12.6	81.8
1983	967.68	49.79	113.88	804.01	5.1	11.8	83.1
1984	1,188.48	55.23	142.52	990.73	4.6	12.0	83.4
1985	1,530.03	44.08	233.22	1,252.73	2.9	15.2	81.9
1986	1,737.31	43.20	294.22	1,399.89	2.5	16.9	80.6
1987	2,028.80	44.61	358.41	1,625.78	2.2	17.7	80.1
1988	2,360.77	48.94	438.94	1,872.89	2.1	18.6	79.3
1989	2,658.83	54.36	500.66	2,103.81	2.1	18.8	79.1

Extrabudgetary funds grew at an average rate of 20.3 percent a year from 1979 to 1989. They grew faster before 1985, at an average rate of 23.6 percent a year, which began to drop year by year after 1986, and had reached a mild 8.8 percent by 1989.

The breakdown of extrabudgetary funds to various units was as follows: 1) Extrabudgetary funds under the control of local finance departments grew from 3.99 billion yuan in 1979 to 5.44 billion yuan by 1989, for a steady, low, average growth rate of 3.1 percent a year. Key factors after 1985, such as the elimination of the industrial-commercial surtax, the bringing of profits retained by county-run enterprises under budgetary control, and the stop put to the former pooling of 30 percent of enterprise depreciation funds by local finance departments, reduced local income sources. The extrabudgetary income of local finance departments accounted for a small percentage, generally about 4 percent, of all extrabudgetary funds. 2) Extrabudgetary funds under the control of state organs, public organizations, and state-owned institutions grew from 6.87 billion yuan in 1979 to 50.07 billion yuan by 1989, for a steady, brisk, average growth momentum of 22.0 percent a year. The key factors involved in this growth were an increase in certain income items, the raising of some fee collection criteria, the fiscal reforms carried out by cultural and educational research institutions, the launching of various forms of income-earning service activities, and the opening up of increased income sources. The extrabudgetary income of these administrative institutions accounted for about 16 percent of all extrabudgetary funds. 3) Extrabudgetary funds controlled by state-owned enterprises and their responsible departments grew from 34.4 billion yuan in 1979 to 210.4 billion yuan by 1989, for an average growth rate of 19.8 percent a year. In addition to the natural growth of production enterprises, key economic reform steps, such as the lead taken by financial reform to reduce taxes for and concede profits to enterprises in various forms, raise the depreciation rate for fixed assets, and stop the pooling of 30 percent of depreciation funds by finance departments, also increased enterprise retained profits and other special funds. The extrabudgetary income of state-owned enterprises and their responsible departments accounted for the most, or about 80 percent, of all extrabudgetary funds.

Extrabudgetary fund expenditures were 250.3 billion yuan in 1989, or 176.9 billion yuan more than the 73.4-billion-yuan in 1982, for an average growth rate of 19.1 percent a year. Their expenditure rate (ratio of expenditure to revenue) rose from 91.5 percent in 1982 to 94.1 percent in 1989. The rough breakdown of extrabudgetary fund expenditures was about 40 percent to fixed assets investment, 10 percent to heavy repairs expenditures, 14 percent to welfare and bonus outlays, 6 percent to institutional administrative expenses, 14 percent to state finances, and 11 percent to other disbursements.

As the growth of extrabudgetary fund revenue and expenditure reflects to a certain extent China's economic reform progress, it cannot be analyzed in isolation, but a

basically realistic conclusion can be reached about this growth only through analyzing the economic climate and interrelated factors on which it depends. In light of which, we would like to note the following factors:

1. Economic reform was the basic *raison d'être* of extrabudgetary fund growth. The economic reform that began a decade ago, has made it possible to free up our productive forces, and has brought about the beginnings of economic prosperity. China's 1979 GNP of 358.8 billion yuan had grown to 1.5677 trillion yuan by 1989, for a 3.4-fold increase in the decade. China's economy has grown quickly and, according to the assessment in a World Bank research report, our higher than 10 percent production growth rate is not only the fastest for a developing country, but is high even for a developed country. Our urban and rural economic growth has steadily increased our economic might, while providing the economic conditions for extrabudgetary fund growth. The financial reforms of streamlining administration, devolving authority to lower administrative levels, reducing taxes, and conceding profits, have rapidly increased the amount of money available to enterprises. Thus, we would like to note that extrabudgetary fund growth is a result of reform, opening up to the outside world, and economic growth, mirrors to a certain extent the economic reform paths taken in various periods, and reflects the distinctive features of the initial stage of socialism in which various economic components and interests coexist.

2. In addition to economic growth and more lenient policy, quite a bit of extrabudgetary fund growth has stemmed from noneconomic man-made factors. For instance, bonuses that should have been turned over to finance have been cut out and kept, budgeted items have been transferred to extrabudgetary items, revenue items have been established, expanded, and given higher criteria without authorization, some public affairs have been privatized, private "small treasuries" have been set up, some areas have long been putting certain large and profitable enterprises under extrabudgetary control and holding back revenue that should go into central coffers, and certain units in charge of extrabudgetary enterprises have transferred management operations, such as easily managed and profitable businesses, to their subordinate extrabudgetary enterprises, and then used "sales commissions" collected from them for collective and personal consumption. All of these actions have randomly increased extrabudgetary fund sources.

3. While extrabudgetary fund growth has played an indispensable, positive role in our socioeconomic life, it has also had a negative impact. It has had the following positive overall effects. It has played a key role in arousing local, departmental, and institutional initiative, speeding up economic growth, and improving living standards. It has greatly stimulated the enthusiasm and initiative of enterprises as economic cells, raised their economic status and improved their material conditions, invigorated them as cells of the national economy and thus, imbued the national economic organism with a

new lease on life. It has supported agricultural and educational development and, while national finances were experiencing difficulties, has increased the basic investment in education and agriculture through educational surcharges and agricultural production expenditures. And it has played key roles in areas, such as developing local advantages, utilizing and developing resources, building up financial resources, invigorating commodity circulation, and improving living standards. While it played a clear positive role in the initial stage of reform and opening up to the outside world, it has disrupted and shocked macroeconomic stability and development coordination along with the deepening of reform, management stagnation, and its own uncontrolled growth, thus creating many obstacles to the deepening of reform.

4. The problems that have come to light in extrabudgetary fund revenue and expenditure, are an overall reflection of the uncoordinated development of our whole economic system and our incomplete system reforms. While our economic development experience has given us every reason to believe that we were right in our original intention to reform our highly centralized economic system, by streamlining administration, devolving authority to lower administrative levels, reducing taxes, and conceding profits, the key issues are still how to divide rights and duties among the state, localities, departments, enterprises, and institutions, and how to coordinate fiscal authority with legal jurisdiction? We have no overall plan as to how to coordinate economic reform with political reform or with our planning, financial, and banking systems. Until these deep layers of problems are basically resolved, it will continue to be hard for us to avoid the system problems of now too tight and then too loose, improper coordination, and treating symptoms but not the disease. For instance, as long as enterprises and institutions lack a self-restraint mechanism, fiscal authority and legal jurisdiction are not coordinated, and state macroeconomic regulation and control capability is weak, the orientation and flow of extrabudgetary fund operations are bound to remain out of control, consumption will continue to increase, the investment structure will be imbalanced, and the industrial structure will be highly irrational. Thus, extrabudgetary fund changes are closely bound up with reform, and its problems are reform problems, which can be resolved only through the deepening of reform.

II. The Peculiarities and Problems That Have Emerged From Extrabudgetary Fund Growth

A. Extrabudgetary Fund Peculiarities

1. While most extrabudgetary funds come from national income, they are growing faster than national income. The only two possible major sources of extrabudgetary funds are the material and nonmaterial production sectors. Those from social product, C, are mostly compensated funds, such as replacement and upgrading funds, general repair funds, oil field maintenance costs, and forestry nursery funds. Those from V + M are realized

mostly through national income distribution and redistribution, such as various local surtaxes, enterprise profit retention, various compensated and uncompensated charges by administrative institutions, profit retention by the nonmaterial production sector, and collected special funds. The breakdown for extrabudgetary income sources is that about 60 percent of all extrabudgetary funds come directly and indirectly from distributed and redistributed national income, while about 40 percent come from compensated income. Extrabudgetary funds grew at an average rate of 20.3 percent a year from 1979 to 1989, or 6.1 percent faster than the 14.2 percent-growth-rate (calculated according to those year's prices) for national income in the same period.

2. Extrabudgetary income has been growing yearly in proportion to budgeted income. Extrabudgetary income amounted to 42.4 percent of budgeted income in 1979, 74.1 percent in 1982, 89.7 percent in 1987, and 94.8 percent in 1989, and a situation has basically evolved in which budgeted and extrabudgetary funds are on a par with one another. While we used to regard state revenue and bank credit funds as our main financial resources and extrabudgetary funds as a supplement, the rapid growth of extrabudgetary funds has now changed our past financial resource order to a bipartite balance of forces.

3. An interflow has appeared between budgeted and extrabudgetary funds. On one hand, steps taken in the system reform process to reduce or increase revenue, such as the streamlining administration, devolving authority to lower administrative levels, reducing taxes, conceding profits, setting up various new funds by localities and departments, and changing from free to compensated service by institutions, have shifted previous state revenue to extrabudgetary funds. On the other hand, as the state's financial resources were being decentralized and it has not had enough money to invest in agriculture or infrastructures in fields such as power, transportation, and raw materials, it has adopted certain policies to amass funds in order to guarantee key construction projects. For instance, it began to collect power, transportation, and key construction funds from extrabudgetary funds in 1983, and centralized other funds in 1989 by collecting state budget regulatory funds, bonus taxes, and construction taxes, from which an interflow between budgeted and extrabudgetary funds has evolved.

B. Extrabudgetary Fund Revenue and Expenditure Problems

1. Incomes have become too big, and financial resources too decentralized as a result of incomplete system reforms and the opening up of too many extrabudgetary fund sources. While extrabudgetary funds grew at an average rate of 20.3 percent a year from 1979 to 1989, national income and revenue increased only 14.2 percent and 8.7 percent respectively. The disproportionate growth of budgeted and extrabudgetary funds was the objective cause of the decentralization of financial

resources, the weakening of state macroeconomic regulation and control capability, successive years of fiscal deficits, the difficulties in ensuring, starting, and continuing key construction projects, and the limiting of government functions.

2. While state tax policy remained relatively stable, the many "abuses, disorders, and decentralizations" that appeared in the collection of fees, imposition of fines, and raising of funds, were a shock to the normal order of the national economy. This could be seen mostly in recent years with the administrative institutions overemphasis on introducing market forces and improperly using competitive forces to the neglect of their purpose of serving the people, and the overemphasis on economic income to the neglect of control and supervision. The current glaring social problems of arbitrary collection of fees, imposition of fines, and apportionment of funds (which the masses call "the three disorders"), violate normal management rules, and have created the grave phenomenon of no reliable regulations and no one abiding by those that exist. Problems, such as redundant law enforcement, duplication and overlapping, malfunctioning, covert fee collection, misuse of authority, coerced collection, and apportionment under the guises of fundraising, assistance, and contributions, have become flashpoints about which the masses are now strongly dissatisfied. They have obstructed improvement, rectification, and deepening of reform, worsened the economic climate, caused erosion of state revenue, hampered enterprise production growth, propagated and spread corruption, and severely jeopardized all aspects of China's political, economic, and social life.

3. Management channels are blocked. As policies are incomplete, fiscal authority has not been properly devolved to lower administrative levels, and the corresponding legal jurisdiction has not been devolved along with fiscal authority, the expenditures assumed by state finance have increased steadily and the state's burden has become heavier. On one hand, the lack of control over extrabudgetary fund income sources has left them uncurbed while, on the other, the state has been forced to take certain steps to amass funds by retrieving part of extrabudgetary funds. This has caused a situation in which loosening of control causes chaos, chaos brings tightening of control, loosening and tightening go on at the same time, and control is being tightened even while a loosening precedent is being set. In fact, this is a rights and interests strategem that merely alleviates the symptoms without effecting a permanent cure, because regulation, control, and self-restraint mechanisms have not yet been established.

4. Fund flow is irrational, and the deep layers of problems have still not been properly solved. Fixed assets investments account for too many productive expenditures, and nonproductive investments account for too many fixed assets investments. How State policy can guide extrabudgetary fund investment to conform to national industrial policy, is an issue that remains to be settled. The rapid growth of nonproductive consumption

among consumer expenditures is caused by the lack of a self-restraint mechanism for enterprises and institutions, and also involves the issues of welfare fund collections having fallen behind the realities, and the outstanding housing and wage payments that are due to staff members and workers.

III. Basic Thoughts on Future Extrabudgetary Fund Management Reform

My basic thoughts on extrabudgetary fund management reform can be summed up as follows: to proceed from China's national conditions and strengths, study and draw up an overall, long-range growth strategy for China's extrabudgetary funds, and conduct a scientific analysis, assessment, and determination of current and long-term extrabudgetary fund size, growth rate, and makeup; to keep extrabudgetary fund growth within the limits of sustained, steady, and coordinated growth of the national economy; to ensure that extrabudgetary fund investment orientation remains consistent with national industrial policy and industrial development planning; to gradually make extrabudgetary fund management more regular, standardized, legalized, and scientific and thus, to establish a policy mechanism that is favorable to macroeconomic regulation and control as well as microeconomic stimulation.

1. Extrabudgetary fund growth should be guided by the overall objectives of economic reform. As economic reform is a complex kind of systems engineering, it should be carried out only in a gradual, steady, coordinated, and orderly way, and neither should nor should be allowed to experience wild fluctuations. Extrabudgetary fund growth is limited by economic growth and system reform, while in turn affecting economic growth and the deepening of system reform. During the reform stage of streamlining administration, devolving authority to lower administrative levels, reducing taxes, conceding profits, and opening up the economy, extrabudgetary fund volume increased sharply, and the more independent budgeting of financial resources and increased investment in production by localities, departments, enterprises, and institutions promoted economic growth. But when extrabudgetary funds began to grow beyond control, they began to obstruct and even disrupt economic and system reforms. Thus, extrabudgetary fund growth must keep pace with, give the necessary service to, and promote the gradual deepening of system reform.

Extrabudgetary fund investment orientation must conform to and be coordinated with national industrial policy and thus, guide, regulate, and promote the optimization of China's disposition of resources and production order, the improvement of our economic efficiency, and the enhancement of our national economic growth stamina. Moreover, just as China's economic system must not be allowed to revert to the old path of centralized revenue and expenditure, the impact of extrabudgetary funds in areas, such as stimulating enterprise and institutional production initiative, effectively utilizing regional resources, raising people's living standards, and

promoting market development, must not be allowed to be weakened, much less negated. A new way should be found through a combination of economic planning and market regulation, to enable extrabudgetary fund growth to enhance macroeconomic regulation and control along with microeconomic stimulation.

2. A policy of quantitative control and structural adjustment should be exercised over extrabudgetary funds for some time to come. As excessive extrabudgetary funds, their too rapid growth, their decentralization of financial resources, and the covert role that they play in eroding sources of revenue have exacerbated national financial difficulties, it is essential that they be appropriately cut down in size to keep them in line with revenue growth. The following two methods could be used to achieve this objective: A. a direct retrenchment method, i.e., using the same method used to collect power, transportation, and key construction funds to directly shift some extrabudgetary funds to budgeted ones; B) an indirect retrenchment method, i.e., taking income adjustment policy steps, such as including certain income items in fiscal budgets and inventorying and reorganizing administrative fee collection, to increase revenue. As the first method alleviates symptoms, but the second cures the disease, we favor the second one.

The keys to overcoming our fiscal difficulties remain increasing our production and improving our economic efficiency. Economic growth is restricted to a certain extent by regional and industrial production structures and product mix. The production structure depends on adjusting existing fixed assets and guiding their growth. Tightening up link by link will ultimately hinge on how correctly national industrial policy is brought into play. The extrabudgetary fund structure breakdown must give consideration to the implementation of industrial policy. Policies must be slanted so that all industries and enterprises that conform to national industrial policy be given preferential treatment, be allowed to keep more funds, and be given more budget jurisdiction, while all industries and enterprises whose growth is restricted by industrial policy be allowed only limited fund growth and be strictly controlled as to their investment orientation.

3. The combined use of budgeted and extrabudgetary funds is a new money management method that will strengthen extrabudgetary fund control. Divorcing budgeted funds from extrabudgetary ones is not only detrimental to overall fund utilization and use efficiency, but is also no help in improving microeconomic efficiency. Thus, based on their respective features, as well as the regional and industrial spatial differences and temporal usage differences of funds, it is both necessary and possible to regulate funds surpluses and deficiencies, in order to alleviate enterprise fund shortages and fiscal difficulties. Financial credit turns this possibility into a reality. As far as units are concerned, centralized utilization of both budgeted and extrabudgetary funds will enable their efforts to be focused on important matters, and will prevent nonconformity, idleness, and waste. As far as financial departments are concerned, it will enable

them to break free from the old concept of paying attention only to devising strategies for budgeted fund use, broaden their horizons to include overall social financial funds, and expand their money management fields, while controlling and putting funds to better use. Although our financial credit is still in an embryonic form that is just unfolding, it can be predicted that centralized utilization of budgeted and extrabudgetary financial resources through financial credit will certainly raise our extrabudgetary fund control to a new level, and will help us to find a new fulcrum with which to extricate ourselves from our financial predicament.

4. Perfecting our management laws and regulations, clarifying our management responsibilities, and rationalizing our funding channels are our immediate objectives for enhancing extrabudgetary fund control. Establishing and perfecting management laws and regulations are basic extrabudgetary fund control tasks. Our immediate management goals are to draw up extrabudgetary fund control regulations, in order to standardize revenue and expenditure actions, clarify the management jurisdiction of concerned functioning departments, and stipulate rights, obligations, and discipline violation penalties for units that have extrabudgetary funds; to establish and perfect regulations for financial accounting, reporting, auditing, and supervision, in order to make management more systematic and scientific; and to rationalize fund management by distinguishing budgeted from extrabudgetary funds, state from private funds, productive from nonproductive funds, and accumulation from consumer funds, differentiating circumstances, and adopting various management forms. For instance, we could take a combination of economic and administrative steps that are weighted toward administrative measures, to control funds obtained by administrative institutions in ways such as fee collection, fundraising, and other funding methods, while using regulation and guidance through mostly economic means, but supplemented by administrative measures, in order to exercise more relaxed control over enterprise production management units.

INDUSTRY

Hebei Building Material Increases Reported

SK1202071591 Shijiazhuang Hebei Provincial Service in Mandarin 2300 GMT 17 Jan 91

[Summary] During the Seventh Five-Year Plan period, building material enterprises across Hebei Province have achieved great developments thanks to earnestly implementing the principles of conducting reform, opening to the outside world, improving the economic environment, and of rectifying economic order. In 1990 these building material enterprises realized 4.8 billion yuan in their total output value, a 52.2 percent increase over 1985 and the yearly average increase is 8.8 percent. Over the past five years, our province has invested 1.3 billion yuan in the fixed assets of building materials enterprises and their newly increased fixed assets have been worth 1.1 billion yuan. By the end of 1990, the per capita

productivity of these enterprises showed a 33 percent increase over 1985. In 1990 these building material enterprises exported their products worth \$34 million to 70 countries and regions in the world, showing a 1.27-fold increase over 1985.

Qinghai Raises Industrial Production

HK1902105991 Xining Qinghai Provincial Service in Mandarin 2300 GMT 12 Feb 91

[Text] Qinghai achieved good results in industrial production in January. Statistics show that the gross industrial output value of industrial enterprises at the township level and above hit 408.8 million yuan in January in terms of 1990 constant price, up 19.2 percent over the same period last year and reversing last year's situation of zero growth.

To the 408.8 million yuan, enterprises under ownership by the whole people contributed 36.49 million and those under collective ownership 43.87 million, thus increasing 9.8 and 13.7 percent respectively over the same period last year.

The daily industrial output value in January averaged 15.72 million yuan, up 1.7 percent as compared with the same period last year.

Truck Assembly Line To Run at Full Capacity

HK1002070891 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 10 Feb 91 pp 1, 3

[By staff reporter Chang Weimin]

[Text] China's largest heavy-duty truck assembly line is expected to start running at full capacity soon, according to the China National Heavy-Duty Truck Corporation (CNHTC) which supervises the line.

Corproation vice-president Shen Shanyu, speaking in Beijing last week, did not give the exact date when the line would reach its full capacity of producing 10,000 trucks and 15,000 engines a year but said it would be soon.

Business Weekly had previously been told that the line would reach its designed capacity ahead of schedule at the end of this year.

Austria's Steyr Nutzfahrzeuge AG company has transferred to the CNHTC advanced technology and equipment to turn out 16-ton to 40-ton Steyr trucks in 15 major designs and 147 types for different uses.

The ZF Company of Germany has transferred transmissions and steering know-how to the CNHTC while Commins engines and Fuller transmission systems from the Eaton Company of the United States have been introduced there.

The CNHTC and the Steyr company jointly announced last week in Beijing that four truck samples made with

parts manufactured in China had passed appraisal by specialists from the two sides.

The trucks had reached the Steyr standard in terms of overall quality, Shen said.

Ernst Prackl, executive vice-president of the Steyr Company, said Sino-Austrian co-operation at the CNHTC had been "very successful."

The CNHTC, with its headquarters in Jinan, Shandong Province, launched the project with Austria in 1985.

The central government placed great expectations on it, listing it as a key State project for the Seventh Five-Year Plan period (1986-90).

By the end of last year, 747 million yuan (\$130 million) had been invested in the project. Seventy four main buildings had been constructed and 5,092 sets of equipment had been installed. The original planned investment in the project was 830 million (\$145 million).

The project covers 14 sub-items. Five had passed appraisal and the rest were under examination, Shen said.

Half of the money invested in the project is expected to be recouped by 1995, according to CNHTC officials.

By the end of last year, 1,500 Steyr trucks assembled with imported components had rolled off CNHTC's production line and 883 had been manufactured by CNHTC plants.

The CNHTC has 15 affiliated plants and 32 more partner plants manufacturing 60 percent of the truck components.

The localization rate is expected to go up to at least 70 percent later this year and finally to the targeted 95 percent.

Most of the trucks have been sent to large-scale projects. "They've met clients' requirements," Shen said.

For decades, the country's heavy-duty truck industry has been unable to meet demand. As a result, most of the trucks have had to be imported.

During the 1960s, at least 1,600 heavy-duty truck were imported each year and in the 1970s, the figure was 7,800 a year.

Between 1980 and 1985, some \$4 billion was spent on importing heavy-duty trucks.

Meanwhile, domestic output was 500 a year in the 1960s and 3,250 a year in the 1970s.

Experts say this situation will be largely improved when the production line is running at full capacity.

The country's current demand for heavy-duty trucks is estimated at 17,000 a year.

SMALL-SCALE ENTERPRISES

Jiangsu Township Enterprises 'Enhance' Economy

91CE0198A Beijing LIAOWANG [OUTLOOK]
in Chinese No 48, 26 Nov 90 pp 14-15

[Article by Zhu Tonghua (2612 6639 5478), Ji Kejian (1518 0344 0313): "Jiangsu's Township Enterprises Advance Amidst Adjustment"]

[Text] When township industries were first established 10 years ago in southern Jiangsu's Nanxiang Township, noted sociologist Fei Xiaotong [6316 1321 6639] spoke highly of the choice this gave peasants, and predicted a bright future for them. Today, 10 years later, Jiangsu's township industries not only retain their strength, but they are also "improving and renovating" their products, and are advancing toward modernization.

Let us look first at the notable achievements of township enterprises in Jiangsu Province. By the end of 1989, the total value of fixed assets of Jiangsu's more than 10,000 township industries was 27.7 billion yuan, surpassing the total value of fixed assets of all state-owned enterprises in the nation in 1957. The output value of township enterprises at the township and village levels equaled 91.6 billion yuan (based on 1980 fixed prices). This was a 13.5-fold increase over 1978 levels. Township enterprises' gross value of output, as a share of the province's gross value of industrial and agricultural output, rose from 19 percent in 1979 to 49 percent in 1989, so that it was holding up "half the sky" for the national economy. In Suzhou, Wuxi, and Changzhou, where township enterprises started earlier and developed faster, township enterprises accounted for two-thirds of the national economy.

It is also very clear that township enterprises functioned to enhance the rural economy, and even the national economy and social development. First, they supported agricultural development and made peasants prosperous. Since 1980, Jiangsu's township enterprises have used nearly 3 billion yuan in funds to "subsidize agriculture with industry," and absorbed nearly 10 million surplus laborers, or 32 percent of the total labor force in rural areas. Wages from township enterprises account for 30 percent of per capita income for peasants in Jiangsu. In addition, they have become important sources of government revenue. Last year, Jiangsu's township enterprises turned over 3.1 billion yuan in taxes, or 30 percent of the province's financial revenues. Second, township enterprises bring new vitality to earning foreign exchange through exports. There are already more than 400 township enterprises in Jiangsu that directly earn foreign exchange through exports. Their total exports over the past nine months were worth 6.3 billion yuan, or approximately one-third of total foreign trade purchases. Finally, township enterprises also serve as an important supporter of rural construction and the development of socialist cause. In recent years, Jiangsu's township enterprises have contributed more than 300

million yuan for education and over 200 million yuan for construction, family planning, bridge and highway construction, public security, the people's militia, and cultural, medical, and other social development programs.

Of course, like other new phenomena that are still developing, township enterprises cannot be perfect. Particularly during the past few years of rapid development, many regions saw a series of problems appear, such as over-expansion, excessive debts, too fast a rise in the consumption fund, and too little capital accumulation among township enterprises. Quite a number of enterprises remained at a rudimentary management level, with outdated facilities, backward technologies, and low technical quality. These problems weakened their market competitiveness to varying degrees. Because of this, township enterprises that depend largely on market regulation could possibly lose the conditions for survival and development.

Severe reality makes people alert. From 1989 on, Jiangsu's township enterprises started the campaign of improvement and rectification. This has certainly been a painful process, yet it was a difficult pass they had to get through. After a year of hard work, these enterprises are beginning to take a healthy turn: the excessively high rate of development has slowed somewhat. Last year the output value of township enterprises increased by 6.25 percent over the previous year, a decline of 30 percentage points over the average annual increase of the past three years. The excessively large scale of fixed asset investment was effectively controlled. Last year, investments by township industries decreased by 32 percent over the previous year. Construction of non-production projects was practically halted. The excessively rapid increase in consumption funds was curbed. Last year, township enterprises paid out a total of 6.62 billion yuan in wages, an increase of a mere 1 percent over the previous year, and a decrease of more than 20 percentage points compared to the average annual wage increase over the past five years. On the other hand, the amount of taxes turned over to the state continued to grow. Despite all kinds of difficulties, last year the amount of taxes turned over was still 2.5 percent higher than in the previous year. What is inspiring is that the externally-oriented economy maintained a healthy trend of development. In 1989, export products worth 4.85 billion yuan were delivered, an increase of 24.1 percent over the previous year. There were 15 new "three kinds of partially or wholly foreign owned" enterprises established, bringing the total number of such enterprises to 166.

In general, the quality of Jiangsu's township enterprises has increased. Currently, the standardization of products by township and village enterprises has reached 85 percent. Over 2,500 enterprises have acquired certification for measurement grades and grade advancement. Because they improved their quality, eight enterprises were promoted to second-level state enterprises, and 72 enterprises were selected as provincial-level model units. A group of products were awarded state-level silver medals, departmental-level quality products awards,

advanced technology awards, and provincial-level quality products awards. There were also enterprises that won quality control awards at the departmental and provincial levels. This proves that Jiangsu's township enterprises have not only survived during improvement and rectification, but furthermore have become more vigorous in the process. One could say that Jiangsu's township enterprises have taken a significant step forward along the path of modernization.

During the adjustment process, township enterprises maintained their flesh-and-blood relationship with agriculture, strengthening the work of "subsidizing agriculture with industry" and "building agriculture through industry" to a greater extent. They also carried on their flesh-and-blood relationship with urban industry and further established an inseparable relationship where the two sides were closely joined through joint ventures, enterprise groups, etc., so that one side could not work without the other. During the adjustment, they persisted in improving product quality, management, and technology. They generated foreign exchange, created new products, and worked hard to improve economic efficiency. As a result, they were able to eliminate the exaggerated output value, discard the guiding thought of developing by blindly expanding capital construction, and negated the tradition of "extensive cultivation" and rough management. Although the adjustment did not appear particularly dynamic, it produced steady effects. In southern Jiangsu we may find some modern enterprises born of township industries. They have become mainstays and new starting points for the further development of township enterprises.

Several enlightening points may be drawn from the great advancement of Jiangsu's township enterprises over the past year:

Township enterprises must seek steady development during the course of self-adjustment. There will be no stability without agriculture or industry. This is an unarguable reality in Jiangsu Province. As they are "half of the sky" in Jiangsu's national economy, township enterprises cannot be allowed to fail or regress. This is a natural part of historical development, a mission imposed by the times. The long-term interests of township enterprises lie in their self-adjustment and modification. It is a road forced upon them, like being "forced to do something desperate." Quite a few counties and cities have analyzed the guidance of township enterprises and actively carried out adjustment programs with positive results. The city of Zhangjiagang operates its businesses by analyzing the market. It stresses strict quality standards, expands advertising, and strives to increase production for products that sell well. It stresses management, expands markets, and strives to increase sales for products with average sales. For products with sluggish sales, it stresses changing directions, expands the product's possibilities, and strives for initiative. Finally, it stresses new products development, expands production, and strives to take the lead. This strategy of

"four stresses, four expands, and four strives" proves really effective. The city's production tended to increase.

We have to support the collective economy as the major form, and tolerate the existence of other economic forms as well. The results of this round of adjustments have again proven that the development of township enterprises depends largely on the collective economy. First, it is conducive to technological improvements which may produce large-scale effects. It is important to have a certain amount of resources in order to continuously develop new products, strengthen the logistics of development, and have a stable position in market competition. Second, collective enterprises may feasibly arrange to use funds from profits to subsidize agriculture and other social programs, so that the development of township enterprises, agriculture, and other social activities is coordinated. Third, collective enterprises help peasants grow prosperous. The development of the collective economy increases peasants' overall incomes. Furthermore, products involving primarily manual labor may be distributed to households and produced separately, thus expanding production and creating specialty products and serial products. Of course, as a supplement to the collective economy, the development of an individual and private economy can in no way be overlooked. Especially in underdeveloped regions, the development of individual enterprises and household cooperative enterprises is indeed an effective way to make the economy boom, increase tax revenues, and generate wealth for peasants. Using the "Gengche model," named after Gengche Township in Huaiyang City, in the past few years they have followed the development path of "using four-wheel drive [relying on township, village, collective, and individual household enterprises] and advancing on a dual track." Per capita income of township peasants has doubled in merely four years. The days of being a "beggared township" have changed into an era that has row upon row of new buildings.

We must attend to the coordinated development between township enterprises and agriculture. The experience of township enterprise development offers two valuable lessons. The heart of the lessons is, first, the dominance of the collective economy and, second, the coordination between industrial and agricultural development. Southern Jiangsu started "subsidizing agriculture with industry" in the 1970's, and later took up the strategy of "building agriculture through industry." It used funds for subsidizing and building agriculture to upgrade agricultural technology and material facilities and ensure the steady development of agriculture. Constant improvements in agricultural conditions in turn provided rich labor resources and other advantages to township enterprises as they developed. The two sides are mutually dependent and supportive. Now that township enterprises have attained a certain size, they should contribute even more to agriculture. A person has an obligation to the mother who nursed him. If he fails to fulfill his obligation, he is "ungrateful," and will lose the public's support and have nothing to lean on. Of course,

enterprises' contributions to agriculture should be balanced, carefully considered, and planned. Such strategies as collecting eggs by killing the hens or catching fish by drying up the ponds will have a negative effect on both agriculture and township enterprises.

They should cooperate horizontally and develop an externally oriented economy. Jiangsu's township enterprises fully utilize their relatively favorable geographic and transportation condition by receiving "radiation" from large and medium-size cities such as Shanghai, Beijing, Tianjin, and Wuxi. They reach out and establish horizontal relations with state-owned enterprises, universities, and research institutions, making extensive cooperative efforts in the areas of product development, technological guidance, funding loans, personnel training, and product sales. Such cooperation has generated clear results. In 1988, Jiangsu's township enterprises generated over 10 billion yuan worth of output value by making parts for large industries. Such brand-name products as Changcheng electric fans; Xiangxuehai refrigerators; Peacock televisions from Suzhou; Panda electronics; Bat electric fans; Bele refrigerators from Nanjing; and Golden Lion bicycles and hand-supported tractors from Changzhou are all closely linked with township enterprises. It is insufficient, however, to set up "internal connections" through horizontal cooperation. It is necessary to have "external connections." Particularly during the adjustment period, township enterprises should make developing the externally oriented economy the breakthrough point; fully utilize the favorable conditions for having an "open-ended network"; develop "three kinds of partially or wholly foreign-owned" enterprises and enterprises engaged in "the three forms of import processing and compensation trade"; and develop foreign trade. Wuxian's township industries doubled their foreign trade exports for three successive years; in 1989 the volume of their foreign trade purchases reached 533 million yuan, an increase of 70 percent over 1988 levels, and accounting for 64 percent of the total volume of foreign trade purchases in Wuxian. Clearly, township enterprises have become a veritable vital force in Wuxian's development of an externally oriented economy.

These enterprises ought to strive for "internal perfection," improve technology, and strengthen capital accumulation so that they may increase their competitiveness and development logistics. Although more than 10,000 township enterprises in Jiangsu have passed the basic management inspection, and a large number of them have improved their quality during the campaign of "handling management and advancing to a higher level," their management level is generally still far below that of modern enterprises. Especially now, when funds are insufficient and new and large projects are fairly difficult to begin, it is all the more necessary to concentrate on increasing product diversity, develop new products, reduce energy and material consumption, and actively engage in technological innovation. Tangqiao Township in Zhangjiagang City has made great achievements since

paying constant attention to technological innovation. Last year alone, it produced 72 new products that generated over 60 million yuan worth of output value for the township. In addition, township enterprises should properly deal with the relationship between accumulation and consumption in order to increase economic strength. Although there are only 12 townships in Yangzhong County, because it focuses on capital accumulation, freely circulating capital accounts for over 40 percent of the county's circulating capital for placing orders. Last year, when the market was sluggish and funds were in extremely short supply, the county still managed to maintain a healthy development, increasing profits by 31.3 percent. On the other hand, some enterprises that depended heavily on loans were forced to stop operations when the improvement and rectification campaign started. This proves that township enterprises can only attain an unbeatable position amidst severe market competition by handling capital accumulation well.

FOREIGN TRADE, INVESTMENT

People's University Economist Discusses Foreign Debt

91CE0220A Beijing JINGJI LILUN YU JINGJI GUANLI [ECONOMIC THEORY AND BUSINESS MANAGEMENT] in Chinese No 6, 28 Nov 90 pp 46-50

[Article by Huang Weiping (7806 5898 1627), International Economics Department, Chinese People's University: "Analysis of and Remedies for the Country's Foreign Debt Problems"]

[Text] A. Current Debt Status

As of the end of 1989, China's foreign debt totaled more than \$41.3 billion ranking twentieth among the world's debtor nations, and sixth among developing countries. China has become an international debtor country in fact as well as in name. In an overall sense, however, China is, without doubt, able to repay its foreign debt. Between 1978 and 1989, the Country's exports increased by more than 17 percent annually, and its foreign exchange reserves now stand at more than \$17 billion. This provides a basis for our on-time repayment of both principal and interest. In addition, by prevailing international standards, China's repayment rate (meaning principal and interest repaid as a percentage of export earnings for the year) in 1988 was 15.2 percent. Its debt rate (meaning the foreign debt balance as a percentage of export earnings) was 84.4 percent. Both were below the internationally recognized safety line (20 percent and 100 percent). In 1989, short-term debt as a percentage of total debt was only 10.34 percent, an amount far below than the internationally recognized 25 percent safety line. Foreign exchange reserves also exceeded the foreign exchange reserves used for three months of imports. Therefore, one should say that the country's prospects for foreign debt principal and interest repayment is optimistic.

The basic situation regarding the country's debt structure is as follows: 1) Sources of debt: The country's foreign debt is owed to a very small number of countries and territories, three-fourths of it owed to Japan, Hong Kong, and Singapore. In terms of channels, other than industrial type liyexing [4418 2814 1840] loans account for approximately 40 percent of all foreign debt. From 1985 through 1988, commercial loans accounted for a respective 69.9, 64.8, 66.2, and 71.4 percent of the foreign debt that the country incurred. The percentage of foreign debt being borrowed through commercial channels is constantly on the rise. 2) Monetary structure: The country's foreign debt structure is also denominated in just a few currencies. Approximately 30 percent is in U.S. dollars, more than 40 percent in Japanese yen, and less than 30 percent in other currencies. 3) Interest rate structure: Interest on approximately 50 percent of the country's total foreign debt is figured on a floating interest rate at the present time. 4) Time limit structure: As of 1989, 10.34 percent of the country's foreign debt was short term. This was a great improvement over the situation for the previous several years. (In 1985, the percentage reached approximately 40 percent for a time, and in 1988, it was still 18.9 percent.) 5) Foreign debt utilization structure: About 60 percent of the country's foreign debt is invested in common manufacturing industries, and about 40 percent is being used in the agriculture, transportation, and energy sectors. About 20 percent of foreign debt projects generates foreign exchange.

The borrowing and use of foreign capital holds definite significance for the building of socialism in China. It makes up for the domestic shortage of capital. The country has used the centralized borrowing of foreign loan funds to build a number of basic energy, transportation, and raw and processed materials industries. This has advanced the development of other industries, the importation of advanced technology and equipment, and it has also hastened the technical transformation and renovation of enterprises, and has increased foreign exchange earnings from foreign trade. In short, the basic situation in the country's borrowing and use of foreign funds is: it is able to borrow; it can afford to repay; and it knows how to use it.

B. Problems Existing in Incurring and Using Foreign Debt

1. Too Many Windows for Borrowing; Lack of Centralized Control Personnel concerned in the World Bank have recommended that, in view of realities in China, the country should have no more than 10 windows for borrowing from abroad. However, prior to improving the economic environment and rectifying the economic order, there were 170 institutions that could directly raise funds through borrowing abroad. Both large in number and widely dispersed, they caused major difficulties for control over foreign debt.

2. Rather Rapid Increase in Foreign Debt; Total Scale Somewhat Large in Terms of Economic Development.

According to figures in hand, the country's foreign debt has increased by an average approximately 30 percent per year since 1979, a percentage that is very much out of balance with the speed of growth during the same period of both the country's gross national product and foreign exchange revenues from exports (about 10 percent and 17 percent respectively). Such a situation is a rarity among developing countries. At this rate, a debt of \$33.13 billion in 1988 and of \$41.3 billion in 1989 will, if it continues to grow, result inevitably in a debt crisis by the middle of the 1990's. This is positively not just alarmist talk.

3. Direction of Flow of Foreign Debt Funds Not Entirely Rational; Returns From Use Wanting. First of all, about 60 percent of the projects for which foreign debt funds are used are ordinary manufacturing industries (such as color television and refrigerator production lines). The percentage used in "bottleneck" firms is not great. Second, only about 20 percent of projects on which foreign debt is used can produce foreign exchange. Foreign exchange outflow and inflow are out of balance. Finally, returns from about 30 percent of projects for which foreign debt funds are used are less than what they should be. As a result, the repayment ability of some enterprises and projects has declined even to the point where they are unable to repay principal and interest on time. This has resulted in defaults.

4. Foreign Debt Practice Lacks Needed Theoretical Guidance; Difficulty in Making Best Distribution of Debt Structure. China has gone into foreign loans without a very deep understanding of world markets, and without having done very complete preparatory work. Thus, it lacks the theoretical guidance needed for setting the right scale, a rational structure, a system of criteria, an optimum flow, and assessment of returns for foreign debt. We also lack very good understanding and thorough familiarity with customary world borrowing, use, earning, and repayment practices. Inevitably, this has resulted in ill-advised actions in every phase of the use of foreign debt funds, an erroneous and improper debt structure being one important aspect. By debt structure is meant the sources, currency denomination, interest rates, and time limits of foreign debt. Commercial debt formed a fairly high percentage of the country's loans. This foreign debt was frequently for short periods of time, at high interest rates, and at relatively poor repayment conditions, which was disadvantageous to our use and repayment of the funds. The country's foreign debt was fairly concentrated in Japanese yen, while import earnings were mostly concentrated in U.S. dollars, Japanese yen accounting for only approximately 10 percent of import earnings. The Japanese yen is hard, and the U.S. dollar is weak. This mismatch in the denomination of foreign debt and export earnings puts us at double foreign exchange rate risk. The concentration of the country's sources of debt in several territories left the country prone to buffeting by monetary fluctuations, and control by others, etc.

5. Incomplete Foreign Debt Monitoring System; Perfection of Decision Making and Operating Mechanism Needed. Because of the numerous agencies involved in borrowing and controlling foreign debt in China, every borrower having its own sphere of external "contracting," although the country has an foreign exchange control bureau that serves as an agency for monitoring foreign debt statistics, each unit being required to register loans at the time they are made, it is very difficult, nevertheless, to obtain accurate and authoritative statistics about foreign debt. In addition, the country's methods for controlling foreign debt are rather undiversified at the present time. Aside from administrative methods, there are virtually no other operating, or regulation and control tools; there is a lack of overall planning of control, and strong operating measures are also lacking. Nor are foreign debt funds used in entirely desirable ways. As a result, problems and difficulties are very difficult to avoid.

Numerous problems have accumulated in the country's foreign debt since the middle of the 1980's, producing serious consequences: In 1989, the country's debt repayment rate was already in excess of the internationally acknowledged alarm line. The amount of principal and interest to be repaid during the 1990's averages approximately \$7 billion to \$10 billion annually. If debt receipts and payments for the last half of the 1990's maintain the average speed of increase of the 1980's, an adverse balance of payments will result. This means that the outflow of foreign exchange will be greater than the inflow, China becoming a net capital outflow country. Currently somewhere between \$55 billion and 60 billion in foreign exchange is spent on imports annually, and repayments of foreign debt principal and interest amount to between approximately \$7 billion and \$10 billion. Meanwhile, foreign exchange earnings from exports and invisibles amount to between approximately \$55 billion and \$58 billion for a foreign exchange shortfall of between \$10 and \$13 billion. So long as import elasticity is very rigid while exports have been developed to their limit, this will have an extremely adverse effect on the country's normal economic construction. In addition, since China is a socialist country in which foreign debt is basically public debt, in addition to which the accumulated domestic debt currently stands at between 80 billion and 100 billion yuan renminbi, the need to repay more than 37 billion yuan renminbi in capital and interest during 1990 worsens the adverse effect of the debt. The country's 1990 repayment of domestic and foreign debt principal and interest will come to around 71 billion yuan renminbi, which is more than 20 percent of government financial expenditures, and which is already more than the country's economy can bear. The foregoing analysis shows that although the country's debt repayment outlook is bright, current difficulties and problems cannot be taken lightly, and must be actively solved.

C. Appropriate Scale for Country's Debt

Japan's Nomura Comprehensive Securities Research Office estimates that China will borrow \$21.5 billion between 1986 and 1990, and will absorb \$13 billion in foreign capital. The corresponding figures for 1991 through 1995 are \$24.3 billion and \$19.3 billion. The Japanese Industrial Bank estimates that by the end of 1995 China's outstanding foreign debt will reach \$108.6 billion. The Rand Corporation in the United States estimates that in 1995 China's safety line for the use of foreign capital will be \$100 billion, and the warning line will be \$150 billion. A World Bank study predicts that China will use between \$46 billion and \$56 billion in foreign capital during the Seventh Five-Year Plan. By the end of the century, China's unpaid debt will stand at between \$128 billion and \$158 billion. Results of most studies and forecasts by Chinese scholars also call for a foreign debt of between \$80 billion and \$100 billion by the end of the present century. In short, the forecasts of Chinese scholars, Japanese, American, and World Bank call for a Chinese foreign debt that is near or greater than \$100 billion by the year 2000.

We believe that the basic factors in setting a proper scale of foreign debt for a country are not determined solely by foreign capital supply capabilities and demand for foreign capital, (under most circumstances, because of the need to develop the economy in a developing country such as ours, a domestic capital shortage to be filled by foreign capital always exists). Of greater importance is a country's overall national strength, economic structure, economic operating mechanism, economic efficiency, the international economic climate, and ability to make readjustments and to adapt to changes in all regards, etc.

Theoretically speaking, since foreign funds are a type of input, its use is bound to provide the borrower corresponding benefits; however, since foreign capital has to be paid back on time with interest, borrowers have to transfer to foreign capital lenders a portion of the benefit as a cost of borrowing foreign capital. This necessitates a balancing of the inflow and outflow (repayment of principal and interest) of foreign capital, as well as the actual benefits from the utilization of this portion of capital (use of the net present value method of calculation). Simply put, the borrowing of either too little or too much foreign capital is disadvantageous to the borrower. Failure to use a sufficient amount of foreign capital means no full use of the potential economic benefits to be gained from the use of the capital. When too much foreign capital is used, the decrease in marginal returns from the use of foreign capital causes a decline in benefits obtained, or it may even create a debt burden. The theoretically optimal scale of foreign debt means that the marginal return from the foreign debt used is equal to the marginal face value of the amount of foreign debt at the time it is used. By marginal return from the use of foreign debt is meant the increase in national income for each unit increase in the use of foreign debt. The marginal cost of the use of foreign debt is thus the national income transferred outside the country per unit

increase in the use of foreign debt. When this theory is operating to the optimum extent, use of foreign debt can gain maximum economic return; therefore, it is most ideal.

Practically speaking, because of the various limitations that exist in reality, realization of the above stated theoretical optimum scale of foreign debt is impossible. Consequently, a less than optimum principle has to be followed for realization of a less than optimum scale in the use of foreign debt. A less than optimum scale means the scale of foreign debt that an economy at a certain level can carry when foreign debt can play only a elementary, supplementary role regarding domestic funds. The scale of foreign debt at this time is determined by numerous factors (and not a single maximum return factor). These factors mostly include: 1) economic adaptability (responsiveness); 2) the international receipts and payments situation; 3) the foreign debt structure; 4) returns from the use of foreign debt capital; 5) matching domestic financial and nonfinancial resources; 6) ability to and mechanism for regulating and controlling foreign debt; and 7) the international capital market situation, etc.

By applying the lessons of experience of developing nations of the world with regard to debt to the actual way in which China's economy operates, we conclude that the a system of norms for arriving at a proper scale of debt for China should be made up of the following: first, norms that reflect the correlation between debt and the national economy; second, norms that reflect the correlation between debt inputs and outputs; third, norms that reflect the correlation between debt and national revenues and expenditures; and fourth is norms that reflect the debt structure and debt factors. These four groups of norms are made up in practice of the following specific norms: 1) the foreign debt balance as a percentage of GNP (economic debt burden rate). In China, this ratio should be limited to less than 25 percent. 2) The ratio of foreign debt principal and interest repayment and government financial expenditures in any given year. In China, the ratio should be limited to less than 15 percent. 3) The ratio of adverse trade balance to GNP for the year. In China, the ratio should be limited to around 1 percent. 4) The ratio of foreign debt principal and interest repayments and export revenues for the year (debt repayment rate). In China, this ratio should be limited to less than 15 percent. 5) The ratio of the foreign debt balance outstanding to export revenues (debt rate). In China, this ratio should be about 75 percent. 6) The ratio of short-term foreign debt to total foreign debt. This ratio should be limited to under 20 percent. 7) Net present value of returns from the use of foreign debt capital. This norm must be greater than zero. Of the seven norms, it is the debt repayment rate and the net present value of returns from the use of foreign debt that are the key ones.

Such a norm system must be said to be fairly stodgy and conservative. This is because the actual state of the country's economy was used as the point of departure,

and the lessons of experience of developing countries applied to its preparation. An economy's debt-bearing rate reflects the extent to which a country can carry foreign debt pressures. A large economy can borrow somewhat more foreign debt. However, China's economy is very rigid, and the economy structure is in the process of shifting from one track to another; thus, the numerical value cannot be too great (the prevailing international standard is 30 percent). The debt-bearing rate reflects the correlation between debt and exports for which the prevailing international numerical value is 100 percent. However, in view of the fact that two-fifths of China's exports are primary products and that two-fifths of all manufactures exported are connected with agricultural raw materials (small demand elasticity), this numerical value should be lower than 80 percent for China. (World Bank has suggested that the numerical value for China should be 75 percent). The debt repayment rate reflects the current year principal and interest repayment, which is more than the prevailing international 20 percent now, but which should not be higher than 15 percent for China. This is because China has accumulated an unfavorable trade balance of \$48.24 billion since the 1980's, because the trend to increase exports has weakened, and because 80 percent of imports were basic raw and processed materials, materials used in agriculture, chemical industry raw materials, and spare parts to keep assembly lines operating for which rigidity was very great. For this reason, an overly high debt repayment rate at the present time will impair the normal operation of the country's economy. Foreign debt return norms directly reflect net economic returns from the use of foreign debt capital, so if the net present value of returns is greater than zero, this shows the use of foreign debt funds to be beneficial; otherwise it shows that gains are not worth losses.

On the basis of the above designed norms, we believe that the country's existing scale of foreign debt has reached the critical point that its economic strength is able to bear. Any further high speed increase and the outlook will be worrisome. The present speed of economic development and increase in exports shows that the scale of the country's foreign debt during the mid-1990's should be held within \$60 billion, the scale of debt thereby entering a period of relative stability so as to be able to cope with the arrival of a period of net outflow of foreign exchange funds.

D. Suggested Remedies To Control the Country's Foreign Debt Management

In order to produce a benign cycle in the country's foreign debt "borrowing, use, and repayment" for a further rise in the role of foreign debt funds in advancing the building of the country's economy, as well as to get through the 1990's peak period of debt repayment without difficulty, we suggest the following remedies:

First is the establishment of an authoritative foreign debt control mechanism to reduce the number of windows

through which foreign debt is incurred. The whole country's foreign debt should be under centralized control of the State Council through the formation of an authoritative central control mechanism made up of the State Planning Committee, the Ministry of Finance, the Ministry of Foreign Economic Relations and Trade, the Chinese People's Bank, the Bank of China, and the Foreign Exchange Control Administration. The main function of this organization would be to set the macro-economic scale of the country's foreign debt, and to regulate and control the debt structure and the direction in which it is channeled for use, thereby preventing the debt from causing a short-term economic shock, and from damaging long-term development potential.

The current large numbers of dispersed windows for borrowing should be reorganized, the number of such windows reduced, and central control exerted over the raising of capital abroad.

Second is perfection of the country's foreign debt monitoring system, and timely notification to all units concerned. 1) There should be a reconfiguration or a readjustment of the country's thinking about the tracking and monitoring of the status of foreign debt, such as defining foreign debt, classifying creditors and debtors, centralized borrowing and self-supported borrowing, etc. 2) There should be a strict registration of foreign debts, and a foreign debt account control system. 3) Monitoring methods should be improved, all possible done to institute computer data processing and networks. 4) Channels for the reporting of loan status should be opened to all units concerned. 5) A system for evaluating the monitoring system should be established and perfected.

Third is strict control over the scale of debt and readjustment of the debt structure. Looked at in terms of the level of economic development and the existing economic structure, the country's capacity to absorb and use foreign capital is limited. Slight miscalculations in the scale of foreign debt may exceed the limits that the country's economic strength will permit. Given these circumstances, setting a debt goal of a between 5 and 6 percent annual increase will hold the foreign debt at around \$60 billion during the mid-1990's. However, achieving this will require firm resolution and strict implementation of a "double tight" policy [tight fiscal and monetary policy] for it to work.

Tasks that must be performed in readjusting the debt structure are as follows: 1) Maintenance of the short-term debt rate within 20 percent. 2) Proper dispersal of territories from which loans are made. 3) Denomination of debt in many different currencies, and maintenance of a ratio among the various currencies (to be readjusted as international financial markets change). 4) Keeping the currencies in which debts are denominated comparable to the kinds of currencies obtained as receipts from

exports. Preservation of a proper ratio among commercial loans and government loans and the loans of international economic organizations. A rational debt structure means debt pressures that can be fairly easily borne at an equal scale of debt.

Fourth is efforts taken in conjunction with the orientation of the country's industrial policy to improve returns from the use of foreign debt funds, and to make this the key in foreign debt "borrowing, use, earning, and repayment."

This requires that we formulate a direction of flow for funds that is in keeping with the country's industrial development in the use of foreign debt funds, and that we genuinely ensure the supply of domestic financial and nonfinancial sources of funds to match the foreign debt funds, the better to use foreign debt funds to full advantage. We must strive for optimum matching of sources of foreign debt funds and the direction of their flow, i.e., long-term low interest loans from international organizations and foreign governments should be used mostly for basic facilities and "bottleneck" sectors, commercial loans, which are short term loans at high interest rates, being used mostly for the light and textile, and the tourism sectors, which have a fast turnover of funds and produce a large amount of foreign exchange. In selecting foreign debt fund projects, we should perfect scientific feasibility studies and project evaluations, as well as institute rigorous project funds control systems to increase economic returns from projects.

Fifth, due to the fact that the country has already entered the peak period of debt repayment, workable methods must be adopted for a smooth transition through this peak period and to ease disadvantages that may be created for us. 1) In conjunction with improvement of the economic environment and rectification of the economic order, we should use an increase in exports and a decrease in some exports as a means of raising money for debt repayment.

There is still some leeway for cutbacks of some imports. This includes a reduction of some consumer goods imports, and reducing duplicatory imports of electromechanical products and of imports for which domestically produced products can fully substitute. If we make rigorous efforts in these regards, we will be able to squeeze out about \$3 billion annual for debt repayment with virtually no adverse effect on normal domestic development. 2) Use of foreign exchange markets for diaoqi [2220 2601] operations to weaken or even avoid the impact of exchange rate or interest rate changes as a means of lightening the debt burden. Diaqi operations are very commonly used abroad to complete trades between hard and soft currencies, and between fixed and floating interest rates in an effort to avoid foreign exchange rate and interest rate risks to the maximum extent possible. The biggest percentage of the country's foreign debt is in Japanese yen. Since our losses from foreign exchange rate changes already amount to several billion dollars, if we can expertly employ diaqi operations, we may be able to reduce losses in this regard. 3) Use of the country's outstanding loan repayment reputation in making new loans and repaying old ones to win

wide inter-government and international financial organization long-term, low interest loans, using new loans for the repayment of old loan principal and interest. 4) Make clear that those who borrow must repay, local governments, departments, and enterprises not being able to push off their debts on the central government. For debts that local governments, departments, and enterprises owe, methods should be used such as allocation of foreign exchange against renminbi payments and taking out loans with the Bank of China in association with the curtailment of expenditures, and garnishing of retained foreign exchange for repayment. 5) Proper institution of debt-investment exchange methods as a means of capitalizing a portion of the debt (meaning, converting a portion of the debt that is due to direct foreign investment in China). This is a measure for mutual benefit. If debt-investment exchange can be used in conjunction with the goals of industrial policies and the technological transformation of enterprises, it is extremely beneficial in easing debt repayment peak pressures to promote economic development. 6) Talks with the governments of friendly countries and with international financial organizations in an effort to reschedule a portion of debt. This includes talks for the partial cancellation or extension of payment and advance payments (if interest and the exchange rate is favorable to us), or the whole debt as well as readjustment of debt interest rates, etc. Of course, given China's present debt repayment capabilities, there is no urgent need to institute these measures, but they may be tried out in phases when circumstances warrant. 7) It should be said that China has limited leeway in using national foreign exchange reserves for debt repayment. Of the more than \$17 billion in foreign exchange reserve, the central government can use no more than several billion directly. Furthermore, once foreign exchange reserve decline as a result of debt repayment, a series of other problems may ensue, so prudence is necessary.

Diminishing Returns Call for New Export Strategy

91CE0202A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 11, 15 Nov 90 pp 19-22

[Article by Chen Zhaoshun (7115 2156 7311) and Tang Hui (0781 2547) of the Shanghai Academy of Social Science's Institute of World Economics: "China's Export Strategy in Light of the Law of Diminishing Returns"]

[Text] Marginal product refers to the additional output an incremental unit of input produces. When two (or more) factors of production are combined to produce a product, and given a fixed state of technology, if we hold the quantity of the other factors of production constant and increase the input of one factor of production, beyond a certain point the contribution of the incremental unit to the increase in total output or the marginal product will decrease. This is termed diminishing marginal returns. According to Western economists, if certain assumptions are met, diminishing marginal returns is a normal phenomenon which follows an initial

stage of increasing marginal returns. It should be pointed out that this law is purely a technical relationship, observable in real economic life. If we analyze the market demands, we will discover that similar technical relationship exists in the exchange sector: A similar law exists between the change in commodity prices and the amount of profit.

I

Everybody knows that in any market transaction there exists some kind of elasticity of demand with respect to price. It indicates a relationship between the change in demand and the change in price. It measures how much demand changes in response to price change. Marx said, "So far as demand is concerned, there is always a certain amount of social demand. To satisfy that demand, there must be a certain amount of a given product. But quantitatively, such demand is very elastic and changeable. The certainty of this demand is but a false impression. If the price of means of subsistence comes down, or if money wages go up, the workers can afford more, and this will create a greater 'social demand' for those goods."¹ This clearly explains the flexibility, or elasticity, of demand for goods.

The fact that demand is elastic does not mean that the elasticity of demand is the same for all products. If we look at the coefficient of elasticity, there are three relatively rare kinds of demand elasticity in real life: (1) completely inelastic demand, where no matter how much the price changes, the demand for the product does not change; (2) unit demand elasticity, where the magnitude of change in demand equals the magnitude of change in prices; (3) Completely elastic demand, where once the price is set, the demand is infinitely elastic [to any price change]. However, the elasticity of demand for most goods falls into one of the following two types: 1) fairly elastic demand, that is, the magnitude of change in demand is fairly large relative to the magnitude of change in price; 2) fairly inelastic demand, that is, the magnitude of change in demand is fairly small relative to the magnitude of change in price. Different strategies must be applied to deal with these two types of demand elasticities in order to maximize the return. The strategies are:

A. If the demand for the product is fairly elastic, the strategy may be to cut price to increase profit. Since a decrease in the price of this product will trigger a disproportionate increase in demand, that is, the magnitude of increase in demand will exceed the magnitude of decrease in price, the revenue loss due to lower prices is more than offset by the revenue increase due to increased demand. Conversely, the revenue increase generated by higher prices cannot make up for the revenue loss caused by reduced demand. Thus, for products with fairly elastic demand, we should lower the price, that is, employ the strategy of "small margin, high volume" to increase profit.

B. If the demand for the product is fairly inelastic, the strategy is to raise the price to increase profit. Since an increase in the price of such product will not have a significant effect on demand, or in other words, the magnitude of decrease in demand is smaller than the magnitude of increase in price, the revenue increase generated by higher price will more than make up for the revenue loss due to the smaller volume. Conversely, revenue loss incurred if the price remains constant or if it is lowered cannot be made up by the resultant increase in demand. Thus, for products with fairly inelastic demand, we should raise the price, that is, employ the strategy of "steep margin, small volume" to increase profit.

But whether we are talking about reducing the price of goods with elastic demand or raising the price of goods with inelastic demand, there are limits to how much prices can be raised or lowered. Even if the demand for a product is elastic, beyond the limit, further reducing the price may only reduce profit, because the price change will not generate further increase in demand. If the demand for a product is inelastic, continued price increase may also reduce profit, because the price change will eventually lead to reduced demand. It is our opinion that these situations can be termed diminishing marginal returns during exchange, and it is also a normal phenomenon observable after an initial stage of increasing marginal returns.

Of course, there is a difference between the law of diminishing returns in the exchange sector and the law of diminishing returns in the production sector. Specifically, the latter case is an input-output analysis, meaning that if we keep on increasing a variable factor of production, beyond a certain point, the rate of output and the corresponding profit will decrease at an increasing rate. The former case is based on the theory of elasticity and is an observable economic reality, meaning that if we increase or decrease the price of a product, beyond a certain level, if we keep going in the same direction, profit will decrease at an increasing rate. The law of diminishing returns exists in the exchange sector because:

First, if the demand for a product is fairly elastic, a slight decrease in price will stimulate the people's urge to spend, leading to a fairly substantial increase in demand and in turn an increase in profit. But if the price continues to drop, at a certain point, losses due to the price reduction will mount, leading to a decrease in profit. Moreover, the increase in demand follows an objective law and cannot be altered by subjective will. When the volume of sales rises to a certain point, it will not rise any more, and further price reduction can only lead to a decrease in profit. Similarly, even if the demand for a product is fairly inelastic, if the price is raised substantially, besides cutting back on spending, the consumers will also turn to substitutes to reduce the consumption of that product, and the marginal return will diminish.

Second, since there is a fixed amount of consumer demand at any given period of time, elasticity of demand exists only within a limited range. Beyond this range, the relationship between price change and the change in demand no longer exists. The following are usually the factors determining how elastic or inelastic the demand for specific goods is: 1) The availability of substitutes; 2) how much of the consumers' budget does a product take up; 3) how extensive is the use of that product; 4) how durable is that product. Although there is a positive correlation between these factors and the elasticity of demand for goods, because established consumption mix and consumer preferences are fairly stable, and there can only be so much consumer demand at any given period of time no matter how elastic or inelastic the demand, even the "low profit margin, high sales volume" strategy will work only within a limited range of demand elasticity.

Third, as competition in the international markets intensifies, price-cutting as an export strategy is increasingly being countered by trade protectionism. For example, the United States and many European countries have enacted antidumping laws which have a serious impact on the exports of many developing nations. Those laws stipulate that if a product entering the relevant countries is priced below similar native products or below the price in the market of a third country, the importing country can impose an "antidumping tax" on that product on account of its "intention." As a result, "antidumping taxes" are levied on many products of developing nations for no other reason than because they are less expensive. Since the "antidumping tax" rate is very high, it greatly diminishes the profit generated by those exports, even to the extent of costing these goods their market shares in the importing countries. Of course, products which are priced too high when they enter the foreign markets, especially when the demand for those products is inelastic, are often resisted by the consumers and subjected to the foreign regime's direct intervention and may even have to take a financial beating as a result. All these factors tend to increase the rate of diminishing returns in the trade sector.

II

Since the law of diminishing returns exists in the exchange sectors, how is it manifested in China's export sector?

China's export volume has been soaring in recent years, but export macroeconomic efficiency has been falling. Take the sale of China's textile goods in the Persian Gulf region for example. In the early 1970's, China began exporting to the Persian Gulf region the type of caftan the Arabs like to wear. At that time, the region was profiting from soaring oil prices, and the demand for these caftans which had become a "status symbol" skyrocketed. Thus, in the first 10 years, China's export of caftans to the region increased by more than 100 times just to meet the demands. However, because the region has low tariffs and no import quota, in the years that

followed, trading companies in many of the provinces and cities began to compete with one another in the Gulf market. Many companies which were not originally in the textile goods business got into the business and began exporting Arabian caftans. They did not try to increase market share by developing new and better products; instead, they undercut prices in a market already captured by other Chinese companies. As a result, despite the volume increase in the export of caftans, and all garments for that matter, export revenue has not increased by that much, and everybody incurred huge losses as a result.

For the same reasons just stated, plus the fact that some trading companies in China simply have no consideration for the overall interest of the country, and as long as they can sell their own goods, they will resort to undercutting prices; therefore, although China's export volume has increased substantially, macroeconomic efficiency has not kept up. Statistics show that comparing 1987 with 1980, the export volume index has risen 149.5 percent, the export value index has risen only 89.9 percent, and the export price index has declined 23.3 percent. These figures indicate that exporting greater volume at lower prices will not boost export revenue and will only drain the country's wealth. Between 1980 and 1987, China's export volume was increasing faster than its export revenue, which led to the decline in the export price index. This implies that the marginal return to China's exports was falling sharply during this period. Thus "overwhelming volume" should not be the approach to developing China's export trade. It is China's foreign trade and export department's duty to stop the phenomenon of diminishing returns in foreign trade and to increase export macroeconomic efficiency. In view of this fact, we suggest that the foreign trade and export department pay attention to macroeconomic management and to sales strategies at this time. Here we will discuss each of these two points:

First, strengthening the macroeconomic management of foreign export:

To encourage more foreign trade and mobilize enthusiasm for the export business, China's foreign trade system is undergoing reform. The aim is to decentralize the operation. But decentralized operation requires even closer macroeconomic management. Of course, not anybody can get into the export business. Only the legally qualified state-run enterprises, collective enterprises, Sino-foreign joint ventures and contractual joint ventures may apply for export operation rights. Otherwise, it would be a free-for-all, and everybody would rush headlong into mass action to sell whatever could be sold regardless of quality, regardless of whether the volume could be sustained, and regardless of who the customers were, and we would be ruining our own reputation and disrupting our own marketing plans. This approach could presumably increase our export in the short-run, but exceeding the international markets' capacity, not only would we be unable to sell our products and lose money as a result, but we would further antagonize

domestic market demand, making the supply of goods at home even more scarce. Thus, there is a need for an organization with legal authorities to coordinate the export trade and assist the foreign trade administrative department with its work. The organization's main function is to unify and coordinate the export markets and export goods of various industries and trades and set the maximum volume and minimum price for different goods, maximizing the amount of foreign exchange per unit export good earns. As economic entities, the foreign trade establishments must abide by the principle of joining forces and uniting against the outside. They should each emphasize a different area, work closely together, help and benefit one another, and complement each other's effort, not only to make our export trade even more lively but also to avoid competing with each other so as not to let others take advantage of us.

Second, adopt every effective sales strategy:

A. Product differentiation strategy: Similar products produced by different enterprises are different in quality, specification, style, function, usage, trademark, and serial number and provide different after-sale service and therefore there is always some differences among them. Product differentiation strategy refers to the manufacturers working closely with the foreign trade and export department to meet the consumers' different needs and desires and differentiate their products from similar, competing products so as to stimulate the customers' urge to buy what is new and different and in turn increase their own sales and profit. To increase our international market share, the key to the product differentiation strategy is not to export cheap products but to export goods that are superior in quality on the inside and are well-packaged, well-designed, and colorful on the outside. Such nonprice competition often can achieve what price competition cannot accomplish.

B. The detailed market analysis strategy: Since different customers have different spending psychology and habits, the demand for similar types of products may still differ in terms of variety and quality. The detailed market analysis strategy means the foreign export departments should separate the consumers by differences in demand and put consumers with the same preferences in the same category, so that we can promptly find out how well the international market demands are being met, that is, whether the demands of specific classes of consumers are being satisfied, whether the market is near saturation or well-saturated, or whether the demands are not yet or far from being met, so that we can use the information to best supply the international markets and prevent excess supply from driving prices down and lower our economic efficiency.

C. The strategy of developing new products: In the wake of rapid scientific and technological developments, competition in the domestic and foreign markets has grown intense, and the life span of products has grown shorter. New products are always being introduced, and they develop, mature, decline, and are soon eliminated, and

there must be continuous development to usher in more and more new products. The strategy of developing new products means the foreign trade department and the manufacturers must focus their attention on the international market's potential demand and develop new products to replace old ones promptly so as to broaden the international market and satisfy the consumers' needs. To date, China is still exporting many of the same old products year after year, products which no longer satisfy the international market consumers' demand for new styles, new varieties, and products that perform new functions. It is difficult to increase sales this way. We must make every effort to change this situation. Compared to price-cutting, developing new products is a much more effective way to increase market share and make more money.

D. The market diversification strategy: If the whole product is put into one market, excess supply may force us to "reduce the profit margin to increase sales." But if the product is scattered in many markets, the bearing capacity will be greatly increased, and in turn we can "increase the profit margin and increase sales" at the same time. Thus, market diversification is another effective way to avoid any price competition which may be to our disadvantage.

All along we have paid little attention to the strategy of market diversification. China's exports have concentrated in Hong Kong, Macao, and Japan. In 1989, exports to Hong Kong, Macao, and Japan accounted for 59.1 percent of China's total export value, and exports to the Soviet Union and nations and regions in East Europe, Africa, and Latin America made up only a small percentage or were nonexistent. This kind of export market concentration is neither reasonable nor scientific in the long-run and is at most economically inefficient in the short-run. Statistics show that in 1986, China's export of cotton and cotton yarn to Hong Kong accounted for 34.1 percent and 73.5 percent, respectively, of its total cotton and cotton yarn exports, but the price of cotton and cotton yarn exported to Hong Kong was not only much lower than those we shipped far overseas but was also lower than the average export price of cotton and cotton yarn. It is obvious that if we develop our export markets in all directions, it will greatly increase China's export economic efficiency.

Footnote

1. *The Complete Works of Marx and Engels*, Volume 25, Renmin Chubanshe, 1972, p. 210.

ECONOMIC ZONES

Hainan Improves Infrastructure, Investment Climate

91CE0248A Beijing LIAOWANG [OUTLOOK]
in Chinese No 46, 12 Nov 90 pp 21-22

[Article by Jiang Wei (1203 1550): "Hainan Province Has Made Considerable Progress in Improving Its Infrastructure"]

[Text] Hainan has been a province and an SEZ [special economic zone] for over two years now, during which time it has vigorously promoted improvement of its infrastructure, the building of key construction projects, and the basic achievement of a good investment climate, which is now continuing to be improved.

Hainan's "Hard" and "Soft" Investment Climates Have Both Clearly Improved

Before Hainan Island was turned into a province, it had a poor infrastructure, with only 388,000 kilowatts (kW) of installed power capacity, most of which was hydro-electric and unable to provide a steady power supply. The government of Hainan Province took active steps to alleviate this power shortage by investing 474 million yuan over two years to build a huge power supply base over 20 km west of Haikou City. The 400,000-kW of new power capacity that has been installed throughout Hainan in the last two years or so, has doubled Hainan's power capacity and turned Hainan from a long-standing power-poor area into a power-rich province.

As to communications and transportation, in addition to having opened up air routes with certain key mainland cities in the five major economic zones of northeast, northwest, north, south central, and southwest China, Hainan has also opened up air or shipping lines and scheduled charter flights with Hong Kong, Bangkok, and Singapore, including 20 new lines with 81 scheduled flights a week. Hainan's port and water transport conditions have also been greatly improved, with its annual port handling capacity having increased from 7.4 million tons before it was turned into a province to 10 million tons at present, and four 10,000-ton dockage berths under construction. From before it became a province to the present, Hainan's water transport enterprises have increased from three to 27, and its shipping capacity has increased from less than 40,000 tons to 163,000 tons. Hainan also invested 215 million yuan in 1989 to build 140 km of new roads and rebuild 55 km of old ones, which has further increased its highway transport capacity. The Liuzhou Railway Bureau, from the Guangxi Zhuang Autonomous Region, has recently set up a "trackless railway station" in Haikou, at which railway tickets from Zhanjiang, Guangdong to all points throughout Mainland China are sold, which has played a key role in linking Hainan to the mainland and developing land transportation.

While Hainan used to have outdated communications facilities, which made it very difficult to communicate with the mainland, Hong Kong, Macao, and the rest of the world, the telephone capacity throughout Hainan has increased from over 14,000 before it became a province to more than 41,000 at present. The number of computerized telephones in Haikou has increased from 5,000 to 22,000. Haikou has direct or semi-direct long distance dialing to all major cities throughout China, and direct dialing to Hong Kong and the major countries and regions throughout the world. There is now direct dialing

from cities, such as Haikou, Sanya, and Tongshen, to 101 countries and regions throughout the world and 513 large mainland cities.

Hainan invested a record 90.5 million yuan in 1989 to build municipal infrastructures. It achieved remarkable successes in building infrastructures, such as urban water supplies, drainage works, gas supplies, communications, sanitation, markets, parks greening, and environmental control.

Along with steadily speeding up the building of its infrastructure, Hainan has also made great efforts to improve its soft investment climate. Since 1989, Hainan Province has drawn up and issued 21 local laws, regulations, and administrative rules, and has over 20 others that have yet to be submitted for examination, approval, and publication. According to the various preferential policies granted to Hainan by the state and Hainan's local policies, laws, and regulations, investors in Sino-foreign joint ventures in Hainan enjoy more preferential treatment in areas such as taxation, import-export trade, capital construction, banking, hiring, and entry and exit procedures, than those in the other SEZ's. Moreover, as Hainan Province has emphasized the building of a better legal system and better reorganization and control of public security, its public order has improved steadily.

The improvement of its investment climate has enabled Hainan to find great favor with investors. Since it became a province, Hainan has approved 1,125 foreign-invested enterprises and attracted \$321 million in foreign investment, and a number of its foreign-invested enterprises are making very good profits. Many enterprises with domestic links have also poured into Hainan, with 4,226 such enterprises having been examined and approved throughout Hainan, and 2.02 billion yuan actually having been attracted. Enterprises with domestic links had export earnings in Hainan of almost \$60 million in 1989.

Development of Tracts of Land in Hainan Is Beginning To Be Speeded Up

A key feature of Hainan's construction is development of tracts of land. Up to the present, 705 million yuan has been invested in the following four investment zones in Haikou: 212 million yuan has been invested in a banking and trade development zone, where construction has begun or is almost finished on eight multi-story buildings with a floor space of 122,000 square meters (sq m); 180 million yuan has been invested in a multipurpose development zone on the eastern side of Haidian Island, where 100,000 sq m of office space and commercial real estate have been completed; 95.75 million yuan has been invested in the Yongwan Industrial Development Zone, where eight projects are underway or have been completed and put into operation; and 73 million yuan has been invested in the Jinpan Industrial Zone, where some up-to-standard factory buildings have been made available to users. In addition, almost 60 domestic specialists have recently been working hard to draft overall plans

for the Yangpu Development Zone, for which the planned outline proofs have been completed and firm negotiations are in progress.

Construction of Key Projects Is Going Smoothly

Construction of 16 key projects, in which 4 billion yuan is being invested, that Hainan began both before and after it became a province, is now going smoothly, which shows that Hainan has built up a good development momentum.

The first of the Macun Power Plant's two 125,000-kW generating units, in which \$84 million was invested, and on which construction began in April 1988, officially went on-line and began generating power in May 1990, and the whole project was completed, checked, and accepted on 18 July 1990. This project was built quickly, is of good quality, and is up to top-grade standards for similar domestic generating units.

The four key construction projects of Macun's power transformer at Zhiyong Village, the Hainan Chongya Automobile Parts Plant, the Yangpu Port project, and the first phase of the Haikou Waterworks, will be finished and put into operation or basically completed in 1990. Haikou's 27,000 computerized telephone capacity-expansion project, the Hainan Cigarette Plant's extension project, and the Basuo Port breakwater upgrading project are mostly finished, and are expected to be completed and put into operation in the first half of 1991. The Huandao (eastern half) Expressway project, and the extension project for two 10,000-ton universal berths at the port of Haikou, are partly finished, and are scheduled to be completed by the ends of 1993 and 1992, respectively. Construction has begun on the three key construction projects of the Daguang Dam's key water control and hydroelectric project, a civil airport at Fenghuang Village, Sanya, and the Hainan Color TV Center. Active early stage preparations are underway for the three key construction projects of the Hainan Changjiang Cement Plant, the Hainan Cold-Rolling Sheet Metal Mill, and the Hainan Computer Display Terminal Plant. The completion of these projects will greatly enhance Hainan's economic might.

TRANSPORTATION

Pipelines Move 60 Percent of Oil, All Natural Gas

*OW1802212591 Beijing XINHUA in English
1602 GMT 18 Feb 91*

[Text] Beijing, February 18 (XINHUA)—China laid 37 pipelines with a total length of 10,000 km in the past 18 years, XINHUA learned today.

These pipelines, scattered in China's 15 provinces and autonomous regions, convey 60 percent of oil and all the natural gas to be transported in China.

Pipelines transported one billion tons of oil and one billion cubic meters of natural gas in the past 18 years, said an official in charge of the pipeline industry development.

The turnover volume of the pipeline industry averaged 60 billion ton/km, surpassing the volume of highway and aviation transport, the official said, adding the pipeline industry cost less investment, has shorter construction period and save land compared with other transportation facilities.

The pipeline bureau of the China Oil and Gas Corporation laid 8,500 km of pipeline and 400 oil tankers with a total capacity of 4.6 million cubic meters since 1973.

So far, China has built a pipeline network in the northeastern part of the country and a network is taking shape in the eastern part.

Automobile Industry Using New Material

*OW1902141491 Beijing XINHUA in English
1357 GMT 19 Feb 91*

[Text] Chengdu, February 19 (XINHUA)—China has begun producing automobile bodies made of rolled steel, metallurgical dust and fiber glass.

So far, the similar technique has only been used in the United States, Germany, France and Japan.

The new material is resistant to corrosion and aging, compared with conventional materials. Automobiles made with the new material are lighter, consume less gas, produce less noise and are cheaper. Such cars can run at a maximum speed of 110 kph.

The Tianju Automobile Corporation Ltd, located in Chengdu, Sichuan Province, has produced 34 cars with the new material so far. It plans to turn out 600 such cars next year, and the annual output will reach 10,000 by 1993.

All the materials and spare parts of the new cars, which have passed state technical assessments, were developed and produced by Chinese scientists.

Minister Li Discusses Rail Construction Plans

*OW1902094291 Beijing XINHUA in English
0628 GMT 19 Feb 91*

[Text] Beijing, February 19 (XINHUA)—Li Senmao, Chinese minister of railways, said here that the next five years will be the fastest development period for China's railway construction.

Li said that a double-track railway connecting Beijing and Kowloon in Hong Kong will be built during the next five years.

The planned 2,900 kilometer line, the longest in the country, will run from Beijing to Kowloon, through Hebei, Shandong, Anhui, Jiangxi and Guangdong Provinces.

Today's OVERSEAS EDITION of the PEOPLE'S DAILY reports that other railway lines scheduled to be constructed include a line from Houma in Shanxi Province to Yueshan in Henan Province which will increase the coal transport capacity in the area, as well as a line from Baoji in Shaanxi Province to Zhongwei in Ningxia, and a line from Kunming to Nanning.

Another main task during the Eighth Five-Year Plan Period (1991-1995) will be to up-grade older railway lines with advanced technology. A number of artery lines including the line from Beijing to Guangzhou and Shanghai, from Harbin to Dalian, and from Chengdu to Kunming, will be electrified according to the state plan. The Guangzhou-Shenzhen line will become China's first express railway after technical updating.

Li predicted that by the end of the Eighth Five-Year Plan period electrification of railway lines will exceed 23 percent, a figure 10 percent higher than the previous five-year plan.

During the past five years, China has invested almost 50 billion yuan in railway construction. The country has constructed over 1,700 kilometers of new railway lines, over 2,000 kilometers of multiple track lines, and 2,700 kilometers of electrified lines. In addition, over 2,000 diesel locomotives and over 1,000 electric locomotives have been purchased.

The minister said that he is fully confident that the tasks of the Eighth Five-Year Plan will be fulfilled.

AGRICULTURE

More Grain Imports Foreseen in 21st Century

*HK2602042091 Beijing CHINA DAILY in English
26 Feb 91 p 4*

[Text] More and more agricultural officials and scholars have embraced the view that China may be able to produce the bulk of its domestic grain demand during the 1990s but will have to import grain in large quantities in the next century.

This is because population growth will almost certainly outstrip the increase in grain output during the first half of the next century, and because the rising cost of grain production in China will push prices up to world market levels in about 10 years.

Agricultural officials say that while the actual value of grain on the world market is on a downward slide, it is just the opposite in China. During the last four decades since the founding of the People's Republic in 1949, grain prices have risen roughly by eight times, or a net 2.26 times after deducting price hike factors.

The major reason for such changes is the increasing marginal cost of material and labour input, particularly in recent years. Statistics show that from 1984 to 1989, per hectare grain output rose 15.5 kilograms whereas the use of chemical fertilizers increased by 55.5 kilograms.

The Ministry of Agriculture predicted that some 150 million tons of fertilizers will be needed in the year 2000, 54.5 percent more than that used in 1989. It is also estimated that the labour cost per kilogram of grain will be 35 percent higher. As these two items constitute the major expenses, grain production costs will go up at least 30 percent in the next 10 years. This means that prices will approached those on the world market.

Based on these calculations, most experts are in favour of a policy of self-sufficiency in grain production before the turn of the century.

Investment

But the opportunity cost for such a policy will be great, experts say. If the total grain production investment has to reach 260 billion yuan (\$50 billion) before 2000 to fulfill the State target of a 75 billion kilogram increase, the government and farmers need to add another 48 billion yuan to the present level of agricultural investment. However, if the money goes to industry, some 74.5 billion yuan in gross output value, and 11 billion yuan in profits and taxes, is expected to be generated.

Nevertheless, experts are aware that the opportunity cost will be far greater if the government allocates a larger share of its hard currency to grain imports, because foreign exchange is just as precious a resource as land and capital are in China at present.

As a developing nation, China mainly exports farm produce and primary products and imports industrial products, machinery and technology. It will undermine the country's modernization if the government cuts the share of industrial and technical imports to make way for more overseas grain purchases.

Moreover, increasing grain imports is likely to affect domestic grain production, which makes up a significant part of Chinese farmers' income, which is already much less than that of urban residents.

The last decade of this century, experts say, is the last chance for Chinese industries to develop to the point where they can export large quantities of products profitably in exchange for technology and materials to sustain further expansion as well as to help finance the gigantic food demand in the next century.

To facilitate the investments needed in both agriculture and industry, experts suggest that domestic grain prices be raised to collect funds for agricultural investment which will alleviate the government's financial burdens. It is also important to accelerate the reform of the purchasing and selling of grain to let customers shoulder part of the rising marginal cost of grain production.

Experts are also urging the government to be cautious about grain exports. Only after years of bumper harvests should the country consider exporting surplus food.

Rural Access to Electricity Improving

OW0203041591 Beijing XINHUA in English
0317 GMT 2 Mar 91

[Text] Beijing, March 2 (XINHUA)—China is striving to ensure that almost all its rural households will have access to electricity by the end of this century.

The "ECONOMIC DAILY" today quoted Huang Jin-kai, director of the Department of Rural Energy and Electrification under the Ministry of Energy Resources, as saying that an electricity grid with a total length of 6.3 million km had been installed in the rural areas by the end of last year.

The annual amount of electricity used in the countryside reaches 200 billion kwh, accounting for one-third of the country's total consumption.

Huang said the consumption in the rural areas is uneven, due to uneven economic development.

Altogether, 32 counties with a total population of 196 million are still short of electricity, and only 12 provinces and counties are able to supply electricity to 90 percent of their rural households.

According to the plan, the ministry will help 20 counties to solve their electricity problems in the coming five years, and the rest by the end of the century.

More Vegetable Wholesale Markets Planned

OW0403215891 Beijing XINHUA in English
1520 GMT 4 Mar 91

[Text] Beijing, March 4 (XINHUA)—China plans to build more vegetable wholesale markets in key vegetable production areas and big cities this year, according to the Ministry of Commerce.

Special fund has been allocated by the central and local governments for the purpose.

With a large increase of vegetable production in recent years, a total of 140 vegetable wholesale markets have been built by state-run vegetable companies in the country.

Fan Chuihong, a department director from the Ministry, said that the state-run vegetable companies should sign more contracts with vegetable production areas so as to ensure supply and stabilize prices.

Gu Xiulian Emphasizes Chemical Fertilizer Output

*OW0503130991 Beijing XINHUA Domestic Service
in Chinese 1329 GMT 2 Mar 91*

[By reporter Li Niangui (2621 1628 6311)]

[Text] Beijing, 2 Mar (XINHUA)—Minister of Chemical Industry Gu Xiulian told reporters today that chemical enterprises should make every possible effort to turn out chemical products and lose no time in doing so and that they should fulfill or overfulfill their production plans for chemical fertilizer and pesticides every month and every season in order to contribute to reaping a good harvest this year.

Spring plowing is to start soon. Large numbers of peasants are very much concerned about the supply of chemical products for agricultural use this year. Gu Xiulian disclosed that the Ministry of Chemical Industry had decided to give priority to the production of chemical products for agricultural use. According to the requirements set by the Ministry of Agriculture, it is planned to produce 92 million metric tons of chemical fertilizer, 5 million metric tons more than last year's target, and to turn out 210,000 metric tons of pesticides, which is the same figure for last year.

In our country, the output of chemical fertilizer still cannot meet the needs in agricultural production—mainly the output of highly concentrated chemical fertilizer is inadequate while that of lowly concentrated chemical fertilizer exceeds the demand. The supply of nitrogenous, phosphate, and potash fertilizers is out of proportion. With the development of agriculture, peasants have an increasingly urgent need for highly concentrated and compound fertilizers. Gu Xiulian said: it is necessary to make vigorous efforts to increase the production of chemical products in short supply and welcomed by peasants. This year, the output of urea, which is used to produce nitrogenous fertilizer, will increase 1.2 million metric tons, five percent more than last year; the output of compound fertilizer will go up by 200,000 metric tons, an increase of 35 percent; and the output of potash will rise by 190,000 metric tons, a 100 percent increase over last year. According to the requirements set by the Ministry of Agriculture, pesticide-producing enterprises should also appropriately increase their production of insecticides and herbicides in short supply.

Gu Xiulian also said that efforts should be made to provide good service after the sale of chemical products for agricultural use, to promote the scientific application of fertilizer and pesticides in order to improve their utilization rate. She called on enterprises producing chemical fertilizer and pesticides to cooperate closely with local departments in charge of agricultural science and to take the initiative in assisting peasants in applying fertilizer and pesticides effectively, safely, and rationally.

Rare Earth Applications Improve Crop Output

*OW0503162391 Beijing XINHUA in English
1446 GMT 5 Mar 91*

[Text] Beijing, March 5 (XINHUA)—China raised its aggregate output of grain, cotton, beans and oil-bearing crops by over one billion kilograms during the past five years by effective application of rare earth technology in agriculture.

An official in charge of rare earth development told XINHUA today that the technology increased the output of sugar by over 200,000 tons and provided total profits of over one billion yuan to the country's agriculture sector.

China began to advance the use of rare earth technology in agriculture in 1986. Thus far, agro-technicians in China have developed techniques which can be used to apply rare earth on 20 crop strains.

During China's Eighth Five-Year Plan period (1991-95), China will promote rare earth technology on an additional 16 million hectares of farmland. Agricultural experts predict that the endeavor will increase the output of grain, cotton, beans and oil by over three billion kg, and the output of sugar by 500,000 tons.

Progress Seen in Agriculture Infrastructure

*OW0503094891 Beijing XINHUA Domestic Service
in Chinese 0416 GMT 2 Mar 91*

[By reporter Pu Liye (5543 4539 2814)]

[Text] Beijing, 2 Mar (XINHUA)—During the "Seventh Five-Year Plan" period, China witnessed considerable progress in the construction of infrastructure for production of plants in terms of seeds, plant protection, and dissemination of agrotechnology. A multilevel, multi-channel system featuring various kinds of services took basic shape.

In the past, most farmers did not distinguish seed from grain when sowing new crops. They simply "grabbed their seed from the grain sacks." Few departments specialized in supplying fine seed to farmers. Today, a service system which breeds and popularizes fine seed and which is dominated by seed companies has basically been set up in many localities across the country. Large farms now get 25 percent of their seed from seed companies at all levels as compared to 15 percent during the "Sixth Five-Year Plan" period. Of note is the fact that a number of state-level seed-breeding centers for hybrid rices and corns, along with seed production bases for rape, wheat, and other crops, have sprung up in the past two years, raising macroregulatory capabilities and facilitating seed supply between provinces.

Plant protection—the prevention and control of plant diseases, insect pests, weeds, and rats—plays an important role in ensuring bumper harvests. In 1989, the Ministry of Agriculture began to set up a nationwide

network to monitor and forecast major plant diseases and insect pests, with 49 monitoring posts built so far. Meanwhile, it has also assisted in the establishment of farm chemical inspection stations in 19 provinces, municipalities, and autonomous regions. Various types of organizations specializing in plant protection services, such as plant hospitals and plant protection companies, have been developed in many localities. Farmers now have no problem buying farm chemicals or controlling insect pests.

During the "Seventh Five-Year Plan" period, the service system for popularizing agrotechnologies was further extended and perfected, resulting in significant changes. By way of commodity base investments and special investment projects, the state has built 10 prefectural- and city-level comprehensive service stations for popularizing agrotechnologies and 728 county-level agrotechnology dissemination centers, bringing the national total of county-level agrotechnology dissemination centers to 1,286, or more than half of the counties in the country. Today, a service system for disseminating agrotechnologies which has a professional contingent as its backbone, and is also comprised of amateur organizations, has basically come into being in China.

Agronomists Discover Cause of Fatal Corn Disease

*OW0503120491 Beijing XINHUA in English
1059 GMT 5 Mar 91*

[Text] Beijing, March 5 (XINHUA)—After nine years of research, a group of Chinese agronomists have discovered the cause of stem-canker, a disease which had baffled the world's agronomists during the past half century, the Overseas Edition of PEOPLE'S DAILY reported today.

The disease, which causes corn to rot while it is still green, has arisen in the main corn producing countries around the world, causing heavy losses, the paper said.

Severely affected by the disease, the United States, France, Great Britain and China respectively lose 10 to 30 percent of their corn yields each year.

Most of the scientists in other countries consider fusarium as the root of the disease; however, experts from the Chinese Academy of Agricultural Sciences recently concluded that the disease is caused by saprophytic bacterium. This discovery offers promise that the problem may soon be solved.

China grows 20 million hectares of corn and is one of the world's largest corn producers and exporters. Scientists here believe the new finding will have an enormous effect on future corn yields.

The Chinese scientists' new discovery has attracted the attention of their foreign partners. The scientists performed cooperative research with United States researchers from Iowa not long ago, the paper said.

Increases in Farm Machinery Boost Production

*OW0603080591 Beijing XINHUA in English
0757 GMT 6 Mar 91*

[Text] Beijing, March 6 (XINHUA)—The 7.2 percent annual increase in the number of farm machines in China over the past five years has raised the proportion of farmland that is plowed by machine to just below 50 percent.

According to the Ministry of Agriculture, by the end of 1990, China had 7.85 million tractors and farm machines with a total capacity of 295 million kilowatt.

Furthermore, the amount of farmland in which crops were irrigated, harvested and protected by machine surpassed the goals set by the country for the Seventh Five-Year Plan period (1986-1990).

Farm mechanization has greatly helped improve China's agriculture, particularly its ability to combat natural disasters.

The country's 60 million irrigation machines have played an important role in confronting droughts and floods while its crop protection machines have helped minimize pest damage, according to the ministry.

Largest Wholesale Rice Market Opens in Hubei

*OW0703111491 Beijing XINHUA in English
1035 GMT 7 Mar 91*

[Text] Wuhan, March 7 (XINHUA)—The Hubei provincial grain wholesale market, the largest rice wholesale market in China, started business here Wednesday.

During the first day, over 900 grain businessmen from 28 provinces in China bought 26,000 tons of grain valued at 27.1 million yuan (about 5.4 million U.S. dollars), with rice accounting for 85 percent of the total.

With an annual grain output of 25 million tons, Hubei Province in central China is one of the major rice producers in the country.

Hubei provides 7.5 million tons of marketable rice each year, of which three million tons are purchased by the state and the rest is sold on the market.

National Program Drafted To Improve Land Management

*OW0703041091 Beijing XINHUA in English
0254 GMT 7 Mar 91*

[Text] Beijing, March 7 (XINHUA)—Chinese officials are drafting a long-term national program to improve the management of the country's vast land resources, "ECONOMIC DAILY" reported today.

The effort is aimed at ensuring the country's economic growth through the next century, the newspaper quoted Wang Xianjin, minister of the State Land Administration (SLA), as saying.

"During the next five years, we hope to increase the country's farmland to a total area of 12 million hectares, up 200,000 hectares from the current total," he said.

While gradually increasing the area of farmland, the plan is also aimed at reforming the land-use system to make the best use of its limited land resources, said the minister.

Moreover, land would be treated not only as a natural resources, but also a major source of government revenue.

China is facing the serious challenge of limited land resources coupled with a large population as its per capita farmland area is only 0.08 hectares, or one-third of the world average.

The minister pledged to strengthen government efforts to bring farmland shrinkage under control while reclaiming more wasteland in the SLA's Eighth Five-Year-Plan period (1991-95) and its 10-year development program.

According to him, the country is expected to limit the annual shrinkage of its cultivated land to less than 400,000 hectares during the next five years.

During the period, the government is aimed at adding 200,000 hectares of agricultural land through reclaiming wasteland, thus keeping net land shrinkage to no more than 200,000 hectares a year.

He said that the area of land used for construction would be limited to 333,000 hectares a year in the 1991-95 period, including 200,000 hectares of farmland.

"This will help China to maintain more than 12 million hectares of farmland to feed its growing population and to meet the demands of economic construction by the end of this century," said the minister.

He explained that the central government expected to produce 500 million tons of grain by the year 2000, when more land would also be used for industry.

Latest statistics released by the SLA showed that the country's annual farmland shrinkage had been cut from a record 1.6 million hectares in 1985 to only 460,000 hectares last year.

The minister added that China had made some progress in charging domestic users of land for nonagricultural purposes and limiting the period for their land-use rights.

Guangdong Exports More Poultry, Livestock Products

*OW0103095791 Beijing XINHUA in English
0924 GMT 1 Mar 91*

[Text] Beijing, March 1 (XINHUA)—At present, 70 and 75 percent of the total supply of poultry and fresh milk in the markets in Hong Kong and Macao respectively come

from Guangdong Province, south China, according to today's "PEOPLE'S DAILY."

During 1990, the newspaper says, the province exported to Hong Kong and Macao a total of livestock and poultry products valued at over 400 million U.S. dollars, which was 12 times the figure for 1978.

The dramatic increase was due to the importation and wide application of technology, and to increased breeding of improved breeds of poultry.

At present, 60 percent of the poultry bred in the province is of improved breeds.

In 1990, more than 80 percent of the poultry in the province was raised by farmers.

Guangxi Sugar Output

*91P30100C Beijing JINGJI CANKAO BAO in Chinese
10 Feb 91 p 2*

[Summary] During the 1990-1991 pressing season, sugar output in Guangxi will reach 1,450,000 tons. At present, Guangxi has 97 sugar refineries operating with a daily pressing capacity of 120,000 tons. In 1990 Guangxi invested over 20 million yuan to improve 400,000 mu of medium and low-yield sugarcane fields; in 1990 the sugarcane area was 4,600,000 mu and gross output may exceed 13 million tons.

Guizhou Livestock Industry

*91P30099E Guiyang GUIZHOU RIBAO in Chinese
10 Jan 91 p 1*

[Summary] At the end of 1990, the number of hogs in stock in Guizhou Province totaled 13,200,000, the number of livestock totaled 6,620,000, and meat output was 739,000 tons. Output value of the livestock industry was 1.72 billion yuan, accounting for 25 percent of the gross value of agricultural output.

Hainan Agricultural Experimentation Zone Approved

*HK2802021691 Beijing CHINA DAILY in English
28 Feb 91 p 2*

[By staff reporter Huang Yiming]

[Text] Hainan—The State Council has approved the setting up of an area for comprehensive agricultural experimentation in Hainan Province.

The 3.7 million mu (246,000 hectares) area, which covers five counties in the province, will open in July and be engaged in crop growing, animal farming and processing of agricultural sideline products.

The aim of the experimentation is to establish a highly efficient agricultural system with the aid of domestic and foreign funds and support from industry and trade.

Tang Juyun, the official in charge of the experimental area, told China Daily that dozens of overseas business people had come to the province to discuss investment in the area.

About 20 letters of intent had been signed between the provincial government and foreign firms, involving more than \$100 million, Tang said. Twelve had been signed by one American firm alone.

The deals involved the setting up of factories to produce edible oil, fodder and canned food.

The Agricultural Development Office of the State Council had also pledged 350 million yuan (\$67.3 million) for capital construction of the experimental area over the next five years, Tang said.

The Hainan provincial government would issue regulations to encourage investment in the area, Tang noted, adding that the area's administrative committee would provide services allowing easy approval and registration.

Heilongjiang Produces More Sugar

OW0603145491 Beijing XINHUA in English
1415 GMT 6 Mar 91

[Text] Harbin, March 6 (XINHUA)—Heilongjiang Province, China's largest sugarbeet producer, produced over 610,000 tons of sugar by the end of February this year.

Zhang Enyu, the manager of the provincial corporation of sugar industry, announced the production figures today in Harbin.

Zhang said that the province will process over 1.5 million tons of sugarbeet in the next two months.

The province expects to produce over 750,000 tons of sugar during the 1990-1991 refining season, 190,000 tons more than the record established during the 1988-89 refining season, Zhang said.

Sugar output of Heilongjiang accounts for one-half of China's total annual output of beet sugar. The province harvested a record 6.5 million tons of sugar beet last year as a result of favorable weather conditions, an increased growing area and by use of scientific farming.

At present, 25 of the province's 29 large and medium-size sugar refineries are engaged in sugar processing.

Heilongjiang 1991 Grain Area

91P30100D Harbin HEILONGJIANG RIBAO
in Chinese 5 Feb 91 p 2

[Summary] In 1991 the planned grain area in Heilongjiang Province is 130 million mu, an increase of 2,600,000 mu over 1990.

Liaoning Holds Agricultural Work Conference

SK2302033891 Shenyang Liaoning Provincial Service
in Mandarin 1030 GMT 22 Feb 91

[Text] Station reporters (Li Tiegang) and (Ma Ying) learned from today's provincial agricultural work conference that: The province's 1991 agricultural production targets are to ensure a total production of 14.25 billion kg of grain and strive to produce 15 billion kg of grain [as received], plan to produce 30,000 ton of cotton and 260,000 ton of oil-bearing crops, strive to realize 11.8 billion yuan of the agricultural output value, and ensure a 40-yuan increase in the per capita income of the peasants based on the 1990 figure of 780 yuan.

Last year, our province reaped an overall bumper agricultural harvest and the production of various crops increased. The province extricated itself from the five-year protracted stagnation of grain production and set a record.

After summing up the experiences gained through last year's bumper harvest and analyzing this year's agricultural production situation, the conference pointed out: With a comparatively weak agricultural foundation, our province does not have the strong capability to combat the natural disasters and is unable to basically change the situation of depending on Heaven to feed the people. Therefore, we must firmly foster the concept of combating natural disasters to reap bumper harvests. This year, the province has a better supply of agricultural capital goods and has a sufficient supply of crop seeds. Most dry land has better soil moisture content.

The conference urged that all localities should firmly grasp the opportune moment to organize spring sowing work and make good arrangements for work of the whole year.

The conference pointed out: This year, we should place in the lead the national and provincial harvest plans to practice advanced agrotechnologies. All localities should realistically organize forces to sign contracts on agricultural production with science professionals and technicians, and vigorously popularize new agricultural scientific and technological findings and new agrotechnologies.

The conference also cited 13 cities and counties that were conferred the title of grain production advanced units by the State Council, including Tieling City and Dawa County; and commended 27 advanced provincial-level agricultural work units, including the Shenyang City agricultural bureau and the [words indistinct] city agricultural bureau.

Leading comrades of the provincial People's Congress, the provincial government, and the provincial committee of the Chinese People's Political Consultative Conference, including Xiao Zufu and [name indistincts], attended and addressed the conference.

Shandong News Conference Views Agriculture

SK2502031491 Jinan Shandong Provincial Service
in Mandarin 2300 GMT 23 Feb 91

[Text] At a news conference held on the afternoon of 23 February on developing agriculture with science and education, Vice Governor Wang Lequan reported on the agricultural popularization year activities carried out last year and put forward this year's new plans for developing agriculture through science and education.

Wang Lequan said: Last year our province achieved notable results in carrying out the agricultural popularization year activities. First, we succeeded in popularizing and applying agricultural science and technology to large areas of farmland by placing the good harvest program in the lead. The 195 projects of the good harvest program arranged by the province covered a total area of more than 1.8 million mu. A total of 2.2 million mu of fields, each with an output of one ton of grain, were built. The popularization rate of fine-strain crops reached more than 90 percent. The farmland areas where eight major technologies were popularized, such as the application of prescribed-fertilizer as well as interplanting and use of plastic-sheet coverings, increased 17 percent over the previous years.

Second, new progress was made in carrying out various forms of scientific and technological contracts. More than 10,000 people across the province formed into 1,156 contract groups to take responsibility for 32 million mu of farmland. On average, each mu of farmland increased grain output by 60 kg or so.

Third, the agricultural and technological popularization system was further strengthened. Sixty-six counties in the province established agricultural and technological popularization centers, more than 1,000 townships and towns established agricultural and scientific popularization stations, and about 72 percent of the villages established agricultural and technological service organizations. In addition, more than 5,000 peasant technology associations were built.

Fourth, remarkable results were made in agricultural scientific and technological training. The province as a whole built 71 agricultural scientific and technological training bases at and above the county level, and more than 2,200 technical schools for peasants at and above the township level. Last year, more than 1,700 training sessions were held and more than 8 million people were trained. All these played an important role in promoting last year's agricultural bumper harvest.

Wang Lequan said: Although the agricultural scientific and technological popularization year passed, the strategic task of developing agriculture through science and education remained a long-term one. Judging from our province's situation, if we want to achieve breakthroughs this year on the basis of last year's good agricultural

harvest, we should pin our hopes on developing agriculture through science and education. So, we should further enhance our ideology of developing agriculture through science and education, realistically develop agriculture by relying on scientific progress, and improve the quality of workers. In developing agriculture through science and education this year, we should grasp well the following few points:

1. We should further attend to the organization and implementation of the good harvest program and extensively popularize scientific and technological findings.
2. We should outstandingly grasp the popularization and application of comprehensively supporting technology to such major crops as wheat, corn, cotton, and peanuts.
3. We should exert strenuous efforts to grasp seed work.
4. We should further establish and perfect the agricultural scientific and technological service system, and actively create conditions for improving the living and working conditions of agrotechnicians.
5. We should vigorously strengthen agricultural education, scientific research, and propaganda work; combine agricultural scientific research with teaching and popularization; and carry out coordinated activities on developing agriculture with science and education.

Status of Tibet's Livestock Industry

OW2702083691 Beijing XINHUA in English
0651 GMT 27 Feb 91

[Text] Beijing, February 27 (XINHUA)— The Tibet Autonomous Region produced 93,000 tons of meat and 180,000 tons of milk products in 1990.

Tibet is one of the five major pastoral regions in China, with an area of about 82.7 million hectares of grassland, 53 million hectares of which is usable for pasture.

Animal husbandry is the backbone of the Tibetan economy. The central government and the autonomous regional government have invested large amounts of money in the development of grassland and the livestock industry.

There were 22.8 million head of livestock in Tibet by the end of 1990. The value of livestock products in that year was 430 million yuan.

Yunnan Farmer Income

91P30099F Kunming YUNNAN RIBAO in Chinese
4 Feb 91 p 1

[Summary] According to a survey of 2,400 rural households in Yunnan Province, the net income of farmers in 1990 was 489.75 yuan, an increase of 11.86 yuan, or 2.5 percent over 1989.

Rural Savings in Yunnan

91P30100A Kunming YUNNAN JINGJI BAO
in Chinese 5 Feb 91 p 1

[Summary] At the end of 1990, rural saving deposits in agricultural banks and rural credit cooperatives in Yunnan Province totaled 4,893,640,000 yuan.

Yunnan Grain Area

91P30100B Kunming YUNNAN RIBAO in Chinese
3 Feb 91 p 1

[Summary] At present, the summer grain and soybean area in Yunnan exceeds 15,400,000 mu, an increase of more than 100,000 mu over 1989.

Bureau Issues Rules on Foreign Archaeology Access

OW2202170291 Beijing XINHUA in English
1433 GMT 22 Feb 91

[Text] Beijing, February 22 (XINHUA)—The State Cultural Relics Bureau today issued "The Regulations on Administration of Archaeological Activities Concerning Foreign Affairs or Foreign Nationals on the Territory of the People's Republic of China."

Zhang Deqin, director of the bureau, pointed out that the promulgation of the regulations shows that China will enter a new stage in opening its archaeological work to the outside world. Meanwhile, he stressed, the regulations will surely help both promote academic exchanges in archaeological work between China and other countries and protect China's cultural heritage and its legal rights and interests in this field.

The regulations' specific requirements cover relic samples, recording of data, publication of research findings and visits to historical and archeological sites not open to the public.

Applications for archeological activities must be approved by the State Cultural Relics Bureau, which will forward such applications to the State Council for examination and approval, the regulations stipulates.

Historical Causes, Cures for 'Moral Deterioration'

91CM0153A Chongqing GAIGE [REFORM] in Chinese
No 6, 20 Nov 90 pp 183-186

[Article by Liu Yumin (0491 6133 3046): "The Cause of Moral Deterioration and the Building of Morality in the New Period"]

[Text] In the 10 years after the reform and opening up, the ideological appearance of Chinese people has experienced drastic changes. Not only has great enthusiasm for socialist construction erupted in economic life, but ideology has matured through the process of bringing order out of chaos and eliminating superstition. Especially as the commodity economy develops, the concepts of democracy and law have gradually settled in the hearts of the people. When reviewing the experiences and lessons of 10 years of reform and opening up, we must fully recognize and affirm this great achievement in the ideological progress. Of course, in recent years there has also been a tendency of decline in the moral standards, ideological outlook, and cultural quality of the people in social life. This phenomenon has caused several concerns for the people. Some people try to find the causes and solutions in ideological and political work; others think that it is a negative effect of the reform and opening up and a price we have to pay for the development of the commodity economy. This article tries to analyze the causes and look for remedies from a historical point of view.

A. See the Causes of Moral Deterioration From the Angle of Historical Analysis

Morality is the sum total of the values and behavior standards of people. The formation, existence, and development of any general social phenomenon is a result of long-term mixed influence of various factors, including politics, law, ideology, culture, and education. The phenomenon of moral deterioration occurs today, but we must look for its causes in history.

1. *The negative effects of the ultraleftist political movement.* Before the Third Plenary Session of the 11th CPC Central Committee, there were frequent political movements, such as the "antirightist movement," "the Great Leap Forward," and the "Great Cultural Revolution." In one movement after another, the masses first fantasized, then became indifferent, and in the end felt disgusted. The political belief of the masses, their innocence, which was built on the basis of political belief, and their idols were crushed in one political movement after another. Furthermore, social restraints and moral standards were scorned because their rationality was doubted. After the Third Plenary Session of the 11th CPC Central Committee, although the ideological line of seeking truth from facts was adopted, the past custom of escalating political conflicts at the slightest provocation did not change fundamentally. Industrial management organs at all levels still answer only to their higher-ups, not to the grassroots levels and the broad masses of people. Many practices of formalism still exist in political and social life.

2. *The patriarchal unit system has complicated interpersonal relations.* The social organizations to which individuals belong are called "units" such as organs, factories, schools, and hospitals. Through party and government organizations which extend all the way down to units, the state controls and manages society. The units have many responsibilities to individuals, and individual rights can be exercised only through units. The advantage of this form of social organization is that it is easy to mobilize and organize the masses and ensure the strict control and stability of society. But there is also a negative side to it—namely low efficiency and the complication of interpersonal relations. Low efficiency is a result of the "iron rice bowl" and the "big communal pot." The complication of interpersonal relations is caused by the personification of the authority of the unit (namely the patriarchal system) and the failure to truly reflect human values.

In addition to carrying out such functions as production, management, and service in accordance with social division of work, "units" also serve as a political organization to exercise socialized management of people and power over many areas. Because of this, "unit" members form a personal affiliation network centered on power and caused by the abuse of position and authority. This network is further complicated by the polarization or pluralization of power (a deputy may have his own network if he has connections in the higher

levels or a base in the lower levels.) Moreover, the "unit" is an organization with many functions and with the power to distribute and decide on such matters as the appraisal of model workers, promotion, assessment of technical titles, housing distribution, and the nomination of cadres. Due to the lack of a rational evaluation mechanism, neither the decision of leadership nor the decision of the masses (evaluation and election) can overcome conflicts of interests. Since we do not have effective measures to deal with those who are negative and slow in work and since there is no strong restraint of responsibility and interest, we often adopt the balancing method in the distribution of profits, thus dampening and even hurting the enterprising spirit and the sense of responsibility. The enthusiasm of work and the degree of responsibility depend on the political awareness of the people on the one hand and the relationship between leaders and the people on the other (namely, whom we work for and whom we want to flatter). This also forces leaders to establish and rely on personal relations.

When the principle of relation spreads to society and subjects all links in the distribution of resources and other aspects of work to the restraint and control of feelings and relations, society will be covered by layer upon layer of relation networks and lose justice and reason.

3. *Failure to enforce law and discipline strictly has objectively connived at legal violations and impermissible behaviors.* For many years we regarded the administration of justice simply as an instrument of class dictatorship. The coverage of law was limited. The state used mainly administrative means to control society, and political authority and ideological education to ensure operational efficiency. This was able to ensure social order and norms in the past when political awareness was stronger, administrative authority greater, and individual behavior more independent. However since the legal system was deficient in the first place and administrative power was influenced by the principle of relations and tended toward personification, the emergence of the phenomena of institutional vacuum and ineffective supervision became unavoidable in society. The malpractice of abusing power to seek personal gains developed in the later period of the Great Cultural Revolution as the people's political awareness and ideological self-restraint gradually declined. After the reform and opening up, the profit mechanism boosted the tendency to maximize material interests in the value concept while the mechanism of social restraint failed to be perfected and nonpersonified along with the development of the commodity economy. The practice of delegating power and yielding profits also further weakened administrative power. The prerequisite of reform is negation. Due to the ambiguity of goals and the demand of exploration, deviation was tolerated objectively. As a result, it made the people doubt existing norms and allowed speculative activities to be carried out and legalized. Like in an ice hockey game where rules are

incomplete and referees are neither fair nor strict, all clashes are allowed, causing confusion throughout society.

4. *Immature and "conformity" mental conditions destabilize the moral basis.* To conform with the control system which depends on administrative power, we have always emphasized the high degree of uniformity of ideology and considered the uniformity of administrative control as the best method of organization and status of operation. Undoubtedly, this practice is extremely necessary to ensure administrative authority and efficiency. It is conducive to the centralization of power and the formation of a unified will. But it has a negative effect on the development of the human mind. It causes people to get used to receiving certain ideology and waiting for orders and instructions. Independent thinking is not encouraged and appears to be unnecessary. Creativity is suppressed. Such immature mental condition gives decadent Western ideologies an opportunity. When the ideological control and organizational management of individual behavior are relaxed, Western culture concerning emotions, especially the ideas of pleasure-seeking and individualism, are quickly accepted and assimilated. Because the democratic system of political and social lives is imperfect and democratic spirit is very rare, such individualism tends to go to extremes as soon as it appears. Instead of affirming individuals' value, it starts out by negating collectivism and idealism. It demands that personal value be recognized while negating other people's value. It demands personal rights while paying no respect to other people's rights and freedom. It demands social protection while neglecting personal responsibility and duty and refusing to follow any norms and restraints.

Cultural upbringing is a stable moral basis. The damage caused by the Great Cultural Revolution in culture and education was the reason for the low-quality of one or two generations of people. Years of unfair treatment of knowledge and intellectuals has given rise to the existence of an anticulture tendency in society. Negative effects of poor cultural upbringing can be found in all moral phenomena.

B. Consider the Development of the Socialist Commodity Economy as the Starting Point in the Building of Morality in the New Period

The analyses summarized above show that two determining factors, namely social justice and reason, can be found in moral phenomena. The degree of building and enforcement of a just and reasonable social mechanism determines the development of social ideological progress and its status. In old China, the Chinese people were like a sheet of loose sand. This was because political corruption made it impossible to form centripetal force and the cultural tradition of not minding other people's business could not coalesce. However, more important, it was because the degree of socialization of production

and exchange was low and society lacked self-management organizations which were based on socialized large-scale production. After several decades of practice in social construction and the exploration of reform and opening up, we have finally established the goal of developing the socialist planned commodity economy. This is not only the guiding principle for China's economic development, but also a starting point in the building of morality in the new period. Without equal rights and fair competition, it is impossible to have justice and reason in society. Continuing to uphold and develop the highly centralized system is incompatible with present needs and makes it more impossible to resolve the problem of moral deterioration.

The view that considers it unavoidable to pay a moral price for the development of the commodity economy is one-sided and lacks foresight. Although some negative phenomena such as putting profit before everything and each trying to cheat or outwit the other may occur in the initial period of the development of the commodity economy, such phenomena will be overcome continuously by the requirements of the commodity economy itself, along with the full development of the commodity economy. In the past we saw only that commodity producers and dealers obtained profits by hook or by crook and did not see that, in cutthroat market competition, commodity producers and dealers must pay attention to reputation, quality, and service in order to continuously cater to and satisfy market and consumer needs. The prevailing "shortchanging" phenomenon in present economic life appears to be a moral phenomenon, but, in essence, is a sign that the commodity economy is underdeveloped and there is poor awareness of the concept of the commodity economy.

It is also impossible to abandon the profit mechanism and rely entirely on political education and ideological encouragement to mobilize the people's enthusiasm. This is not only because political and economic situations have changed completely from the past, but, more important, because the people's need for material interest is a most basic and essential need. Especially under the current situation where social interests have gradually become pluralized, it is very hard to make the value standards of persuasion and education compatible with the internal needs of the people. In most cases, the people choose behavior standards in accordance with their own needs. It is unrealistic to rely solely on the method of persuasion and education to convert value concepts to a choice of behavior. The only realistic choice is to rationalize the profit mechanism. Obviously, only by vigorously developing the commodity economy can we achieve this objective.

A modern commodity economy is an economy of equality, reputation, and high culture. The function of the law of value and the restraint of wide-range interests and responsibilities that are compatible with the commodity economy will overcome the principle of relations. Equal competition will eliminate the closed "unit" system. Each individual will choose and play on their own a role in society and gain social recognition for doing so. Society will have justice and reason under the prerequisite of public ownership.

The socialization of contract relations required by the characteristics of the commodity economy is bound to create two most positive results—namely the development of a democratic spirit and the perfection of the building of the legal system. Broad contract relations must be built on the basis of equal rights, and only impartial authority and law can protect and enforce equal rights. Equal rights are the quintessence of democracy and the legal system. Democracy is to admit that other people exist and enjoy the same rights as we do. The legal system is to protect the enforcement of equal rights and allow everyone to have equal status before law. Democracy and legal system are twins of the commodity economy. Democracy is not only a political system, but also a way of thinking and life. Only when democratic ideas continue to develop and deepen and the legal system continues to be perfected can society be filled with the atmosphere and social practices of respecting and understanding others, observing social ethics, and protecting social order. Under the condition of the commodity economy, the quality of people becomes a determining factor of equal competition. On the one hand, the people's independence, initiative, and creativity will be developed to the full; on the other hand, everyone will realize and understand from immediate interests the importance of education and therefore strives to learn and is willing to get involved. This will improve the moral basis and the overall quality of the people.

Needless to say, the people's moral standards will not rise automatically as the economy develops. Without political education and ideological encouragement, the stiff restraint of law and discipline alone will not be able to regulate and control moral phenomena effectively. But if we establish and enforce a social mechanism of justice and reason in accordance with the socialist planned commodity economy, we will be able to achieve the moral objectives of democracy, legal system, and order in the development of the economy although our society will not have as many idealistic and dedicated people as in the 1950's and the 1960's. This point is beyond question.

Development of Beijing Aerospace University

91CM0166A Beijing ZHONGGUO KONGJUN
[CHINESE AIR FORCE] in Chinese No 6, 28 Nov 90
pp 2-5

[Article by Lin Jiang (2651 3068): "Under the Same Patch of Blue Sky—A Visit to the Beijing Aerospace University"]

[Text] When you leave Beijing by way of the overpass at Xizhi Gate and keep going north past the "hazy trees of the Ji Gate," far off in the distance you can see the Beijing Aerospace College [BAC] peeking through the foliage.

BAC and the Air Force Share Common Roots

The first person to show me around was Professor Cao Chuanjun [2580 0278 6874], who had served as president of BAC from 1983 to 1988 and is now serving as chairman of the BAC academics committee. This man, who had been the chief designer of the launcher for China's first sounding rocket, recounted for me the history of BAC's development and of China's aviation education.

The training of aviation talent in old China began during the late Qing dynasty and the early period of the Republic of China. Under the influence of Sun Yat-Sen's slogan, "save the country through aviation," some students went abroad to learn aviation technology. By the 1940's, there were already nearly 1,000 people abroad studying and practicing aviation. One of the brightest stars among them was Qian Xuesen [6929 1331 2773].

Within China, many institutions of higher learning began to set up aviation curricula in the 1930's. One of the earliest was Qinghua University, which first set up an aviation group within its mechanical engineering department. By 1934 it had set up an independent aeronautical engineering department. Aeronautical engineering departments were later established one after another in Beiyang University, Zhongyang University, Jiaotong University, Zhejiang University, Xiamen University, Yunnan University, Sichuan University, and the Northwest Polytechnical Institute.

After the War of Resistance Against Japan broke out, it filled people with rage to see Japanese aircraft roaring across the Chinese sky bombing and strafing Chinese cities and villages while we had almost no air power. Many young people signed up to take the test to get into aeronautics departments. Professor Cao, who graduated from the United University of the Southwest in 1945, was one of those people.

By the time of liberation in 1949, 11 universities in China had set up aeronautics departments, and they had turned out about 1,000 graduates. This small number was the sum total of persons educated in aeronautical engineering left to us by old China.

On 25 June 1950, the Korean war broke out. The United States sent large numbers of aircraft to invade north-eastern China, seriously threatening China's security. The party Central Committee and Chairman Mao resolutely decided to establish the Chinese People's Volunteer Army to take part in the war in Korea. During operations in the War to Resist U.S. Aggression and Aid Korea, the newly formed Air Force of the Chinese People's Volunteer Army went up against an enemy with superior equipment. Heroic and tenacious, the men in the Air Force dared to fight and risk their lives. They delivered heavy blows against enemy aircraft and paid a price themselves, too. The war created an urgent need for establishment of China's own aeronautics industry and educational system, as well as for the training of aeronautical technical personal.

It was against this backdrop that the Central Military Commission [CMC] decided in May 1952 to establish aeronautics academies on the basis of the original aeronautics departments in the universities. In September 1952, the teachers, students, and equipment from the aeronautics departments of eight universities from around the country (with Qinghua University's Aeronautics Institute as the main contributor) were concentrated in this location, and BAC was established.

Within the scheme of New China's aeronautical undertaking, BAC was responsible for training personnel to participate in design, manufacturing, and management, while the Air Force was responsible for use and maintenance, so, from the time that the college was established, relations between BAC and the Air Force were very close. You could say that they had both sprouted from the same root!

I just kept nodding my head in agreement, and got the strong feeling that this metaphor of Professor Cao's was both vivid and appropriate.

The Cradle Where Aviators Are Trained

Professor Cao told me that the BAC has been listed as one of the 16 key universities in China ever since its foundation. In 1988, under the leadership of the Ministry of Aerospace Industry, its name was changed to the Beijing Aerospace University [BAU]. The entire university now has a graduate school, an Institute of Space Navigation, Management Institute, and Institute for Continuing Education. There are 13 departments, 36 majors, five state-designated high-priority disciplines, 17 Ph.D. programs, 34 doctoral advisers, postdoctoral activities centers for three different majors, and nearly 1,500 graduate students. There are also some graduate students here from the Air Force.

In the 38 years since the school was founded, it has trained nearly 30,000 undergraduate and graduate students. Most of the leaders in the Ministry of Aerospace Industry, the factory heads and managers in the various aircraft manufacturing corporations, and the heads of research institutes are graduates of this University. It would be accurate to say that graduates of BAU have

participated in the design, manufacture, and maintenance of every single Chinese-made aircraft in the Air Force. This university has also trained many people for the Air Force. The Office of School History and Alumni Affairs provided me with statistics which indicated that, from 1953 to 1985, 1,759 graduates of BAU had been assigned to the military system, and most of these had been assigned to the Air Force. When I asked the Air Force Aeronautics Engineering Institute about this, they informed me that, from 1958 to 1989, 107 graduates of the BAU had been assigned to their institute.

BAU students have a special feeling for the Air Force and flying. During the years when the Air Force was trying out the system of going directly to university students to recruit pilots, BAU students answered the recruitment calls in great numbers. The BAU Militia Department helped us to gather the following statistics on the number of pilots recruited: 24 from the class of 1983, 8 from the class of '84, and 13 from the class of '85. During those three years, BAU supplied 45 graduates with bachelor's degrees to the Air Force, where they have served as pilots. When I interviewed Fang Fuzhi [2455 1788 0037], vice president and deputy secretary of BAU, I asked him which of the BAU graduates who had been sent to the Air Force had later gone on to achieve notable success. Vice President Fang immediately replied "Why, Wang Ang [3769 2491], of course!" And so it was. Wang Ang, who had been granted the title of "Hero of Scientific Research and Test Flights" in January 1980 by the CMC, had entered the Air Force in 1958, the first year in which pilots were recruited directly from among BAU students. He used his superior flying skills to test-fly various types of aircraft for the Air Force, and he is now the chief engineer in the Ministry of Aerospace Industry.

In the materials given to me by the Office of School History and Alumni Affairs, I also saw the name of Liu Miquan [0491 1736 5028] and several other familiar names. Liu Miquan, who graduated from BAU in 1968, is another old exemplary member of the Air Force. She was awarded the title of National Women's Day Model Expert in 1985, attended the All-Army Conference of Heroes and Models in 1987, was elected as a delegate to the 13th National People's Congress in 1988, and was promoted to deputy chief of the Antiaircraft Defense Department of Air Force Headquarters.

Using Science and Technology To Propel Aircraft Into the Blue Sky

BAU has given even more support to the Air Force in the area of scientific research.

Modern universities are centers of both education and scientific research. BAU also plays both of these roles. The BAU campus of the Scientific and Technological Research Institute of the Ministry of Aerospace Industry is one of this university's organs of scientific research. The BAU campus of this institute has 13 departments,

under which there are 17 research institutes and nine multidisciplinary research centers, most of which are related to the Air Force.

The current president of the university is Shen Shituan [3088 1102 0957], who has yet to reach his 50th birthday. He explained to me that BAU has worked resolutely since reform and opening up to closely combine the mission of training highly skilled professionals with that of developing science and technology, and it has looked upon its aggressive efforts to develop scientific and technological research as one important method of improving its training of personnel. Since 1987, funding for scientific research at BAU has exceeded 20 million yuan, which makes BAU one of the best funded of all the key universities.

BAU has now built up a stable and highly efficient scientific research organization; cultivated a group of key and newly emerging disciplines; built a number of bases for scientific research and experimentation which are relatively advanced and unique; taken responsibility for large amounts of groundbreaking research, model-development technology, fulfillment of the state's Seventh Five-Year Plan, and high-technology Project 863; and achieved a number of scientific breakthroughs which could be considered advanced by any standards, whether domestic or foreign, and which have yielded major economic and social benefits. At the 37th anniversary of the school's founding, everyone reviewed 20 firsts which BAU had achieved. President Shen Shituan counted them out one by one as if they were family heirlooms.

Many of these projects have been applied directly in the Air Force. For example, the BAU Ph.D. candidate Gao Ge [7559 2960], under the guidance of the famous aircraft engine combustion theorist Ning Huang [1337 2853], made a major improvement upon the traditional design theory for flame stabilizers which has been used abroad for years. He used his own sand dune stabilization principle to design a sand dune-turbine flame stabilizer. In comparison with the V-groove flame stabilizer which has been used for 40 years both in China and abroad, its resistance is only one-fourth as great, and the area stabilized has been increased by a factor of 7 or more. This flame stabilizer has been installed on the WP-6A power plant, which is widely used in the Air Force, and test-firings on the ground as well as test flights have proven that it not only helps to eliminate the combustion irregularities which endanger flight safety, but it can also increase the thrust by 2 percent with afterburning, lower fuel consumption by 1-1.5 percent, and it has raised the number of successful first-time test-firings from the previous 30 percent to nearly 100 percent. This advance has important economic value and has enabled China to vault into the ranks of world leaders in this field. For its creativeness and usefulness, this breakthrough has received high praise from famous experts, and it has been awarded the First-Class State Prize for Scientific Inventions.

I learned from Guan Hanzeng [1351 3352 1073], deputy director of BAU's Department of Scientific Research, that the overall design of China's first flight simulator—the F-6 flight simulator—was handled by BAU, and the project was awarded a First-Class State Prize for Scientific and Technological Breakthroughs. Since going into service with the Air Force in 1984, it has been used by a certain flight school to train many pilots. BAU is now developing other models of flight simulators, and it is also helping the Air Force to make various models of computer imaging systems for flight simulators.

The People of BAU—Hearts Linked to the Blue Sky

In order to better understand the support provided to the Air Force by BAU, I made a visit to the Air Force's Aeronautical Engineering Institute, which has a very close relationship with BAU. Everyone from the director of the institute down to the engineers in several laboratories who talked to me exclaimed with sincerity, "the teachers at BAU are just great!"

Even today, when Jing Guoguang [2529 0948 0342], a senior engineer in Laboratory No. 2, recounts how Professor Chen Nengkun [7315 5174 0981] assisted them in their scientific research while wearing a dust mask over his face, he still feels very moved. In 1983, the institute was working on a project to replace the gasoline starter in the F-6 jet power plant with a kerosene starter. To carry out the project, they requested the assistance of Chen Nengkun and other professors from BAU's Institute of Thermodynamics. Professor Chen was not in good health, and he was especially sensitive to kerosene. Every time he smelled it he would cough uncontrollably, but he put his health problems out of mind, donned a dust mask, and resolutely carried out experiments all day long without ever complaining. He said that he had done very little other than theoretical research all his life, that this was the first time he had worked on a relatively large-scale project, and that he definitely wanted to contribute something to the Air Force. He offered a lot of good ideas and made a lot of parts and components himself. Under the leadership of Professor Chen, the comrades in the team struggled side by side and, in the end, after spending 7,000-8,000 yuan, they completed their task successfully. It enabled the F-6 to use only one type of fuel, and pared three to five minutes off the time required to prepare the aircraft for flight. It was able to start the aircraft's engine safely and reliably in flight, and was awarded the Third-Class Air Force Prize for Scientific and Technological Breakthroughs.

One of the main causes of failure of the WP-6 power plant is the presence of cracks in the lower grooves of the turbine plate. In 1978, BAU was put in charge of part of a research project on this problem. Professor Nie Jingxu [5119 2529 2485], of the Engine Structure Teaching Group, led six teachers and graduate students as they worked on this project for six straight years. They were the first in the nation to apply fracture mechanics theory to aircraft engines. They put a lot of effort into calculating stress fields and temperature fields, and held three

national conferences on the subject before confirming their results. In the end, they finally figured out the cause of the failures. The critical fracture length was increased from the former limit of 1.5 millimeters to 2.5 millimeters. According to calculations, the loosening of maintenance requirements reduced the scrap rate for the structures from 25 percent to 4 percent, which has enabled us to save 2 million yuan per year. This was the first attempt to control fractures in the parts and components of aircraft currently in service with our military. The project was awarded the Second-Class State Prize for Scientific and Technological Progress in 1985.

Zhao Fuxing [6392 4395 2502], a senior engineer and head of the strength team in the Institute's Laboratory No. 2, worked together with Professor Nie to complete this project. Zhao Fuxing stated that the teachers at BAU have a lot of up-to-date information from China and abroad, and that they have a very advanced knowledge of theory. He said that you can make great breakthroughs when you work together with them on a project. What is especially praiseworthy is the fact that the teachers at BAU are not concerned about fame or fortune. The minute they achieve any progress in their research, they immediately tell the other comrades in their team. The issue of "individual patents" does not exist. Everyone attacks his or her work with zeal, yet is completely unassuming when it comes to being ranked. Cooperating with them has never resulted in any ugly scenes.

Among the teachers that I interviewed at BAU, Professor Gao Zhentong [7559 6966 0681] (head of the Solid Mechanics Institute and a National Education System Model Worker) made a very deep impression on me.

He is a sincere, enthusiastic, and approachable old professor. There is just a touch of silver in his hair and his face exudes a ruddy health. Behind the lenses of his glasses, a pair of smiling eyes looked out and appraised me: "How old do you think I am? I'm 62! Don't look it, do I? Ha ha!" His ringing laughter reverberated throughout the stark laboratory.

It was Professor Gao, though, who solved a big problem for the Air Force!

Just like humans, aircraft have a finite life expectancy. Unlike humans, whose life expectancy is natural, the life expectancy of aircraft is determined by fatigue. How to accurately assess the life expectancy of various types of aircraft is a difficult question facing the international aeronautics community.

Professor Gao said that, in the past, for lack of a proper method for determining aircraft maintenance periods, the Air Force had to grope its way blindly. It would first fly a certain aircraft for a period of time to see whether it developed any problems; if it did not, then all the other planes would be allowed to fly the same length of time. If this aircraft developed a problem, then no one dared to fly any of the others. The F-6 was first flown for 350 hours before undergoing test maintenance, and this figure was later changed to 600 hours and then 800

hours. Without any basis in theory, this type of blind maintenance caused huge waste of labor, material, and financial resources for the Air Force over a period of 30 years. If an aircraft had crashed due to fatigue, to say nothing of the loss and damage of state assets, the life of the pilot would be endangered!

Beginning in 1987, Professor Gao (with the help of his students and Zhang Fuze [1728 4395 3419], the chief engineer in the Air Force Aerospace Technology and Equipment Life Expectancy and Dependability Contract Management Office), led a group of four young Ph.D. candidates (Fei Binjun [6316 2430 6511], Ling Jing [0407 7234], Li Weidong [2621 5898 2639], and Fu Huimin [0265 1920 3046], the latter of whom was one of the members of the team of intellectual reporters that produced the report *The Footprints of Fighters*) in researching a topic connected with a task assigned by the Field Operations Department of the Air Force Aerospace Engineering Department. The topic that they researched was entitled "Determining Life Expectancy, Extending Life Expectancy, and Determining Reliability of Aircraft and Equipment Currently in Service With the Air Force During the Seventh Five-Year Plan—Subproject: A System for Designing and Analyzing Structural Fatigue, Life Expectancy, and Reliability." They used modern theory, technology, and methods from China and abroad and applied them to several types of aircraft currently in service in China. After carrying out large numbers of experiments, including full-scale structural fatigue and reliability tests, they introduced a series of innovative theories and methods of calculations, including the two-dimensional dynamic stress-strength interference model, a model for calculating structural fatigue and reliability, and a fatigue-failure curve. These methods are more advanced than the one-dimensional stress-strength interference model and the diffusion coefficient method, and they represent advances which have not taken place anywhere else in the world. Professor Gao showed me a letter which had been typewritten in English. It was an invitation from the General Assembly Chairman of the 1990 International Fatigue Conference, Professor Hideo Kitagawa, who wanted Professor Gao to present a paper at the conference in Hawaii and serve as a member of the Technology Committee.

On 29 December 1989, Professor Gao's breakthrough passed a ministerial-level review in which several famous Chinese specialists and scholars participated. Professor He Wenzhi [0149 2429 3112], the deputy minister of aerospace industry, wrote in his review, "this research project has produced both cutting-edge international theoretical breakthroughs as well as breakthroughs which can be applied to engineering problems. The project is very rich in content. After applying this method to determine the life expectancy of the A-5, the Y-7, and the F-8, we have found this method to be very effective. It is appropriate for China's actual conditions at the same time that it meets the relevant international standards and regulations. It has practical engineering

value, and it will play a role in promoting and guiding our countries efforts to determine life expectancy, lengthen the life expectancy, and improve the reliability of a series of aircraft. It occupies a leading position within China and has reached international standards. Its economic benefits are very great."

Just how great are its economic benefits? Professor Gao handed me a document entitled "User Comments" which had been stamped with the official seal of the "Nanchang Aircraft Manufacturing Company, Design Institute No. 1." The comments stated that, in determining the life expectancy of the stock fuselage structure, the relevant departments in the Air Force relied upon the experience of the Soviet Union in the use of its MiG-19, and they arrived at the following life expectancy for the A-5: The first maintenance was carried out at 500 hours, and after being maintained three times, the aircraft had a primary use life expectancy of only 1,250 hours. Since using Professor Gao's breakthroughs to determine the life expectancy of the A-5, however, it has been determined that the aircraft can be flown safely for 1,300 hours before it needs to be serviced in a factory. This alone saves the money that use to be spent on two maintenances. Assuming that 500,000 yuan are spent every time that an aircraft is serviced, when you take all the A-5 aircraft together, it is apparent that a big sum of money has been saved indeed!

By using the breakthroughs achieved in this research, not only can we lengthen (in a rational manner) the interval between the first maintenance and each subsequent one, but we can also reliably assess the overall life expectancy of an aircraft. The contract for the Y-7 transport requires a life expectancy of 15,000 takeoffs and landings. The Xian Aircraft Company used the methods and data provided by Professor Gao to analyze the results of its full-scale fatigue experiment on the wing of its Y-7 transport and was able to determine that the life expectancy of the Y-7 could reach 24,000 takeoffs and landings. The Nanchang Aircraft Manufacturing Company determined an overall life expectancy of 4,200 hours for its A-5 aircraft on the basis of this same theory. The Air Force recently officially adopted the life expectancy which was determined for the A-5, and it is now making use of this same method for the F-7, F-8, and FT-5.

I couldn't control my emotions as I expressed my heartfelt gratitude to Professor Gao, and then I raised the last doubt which had been lingering in my mind: "These methods of yours have lengthened the life expectancy of those aircraft. Could it possibly effect the safety or reliability of the aircraft?"

The smile disappeared from Professor Gao's face. He stated solemnly, "I am acutely aware of the gravity of my responsibility, and have always erred on the side of caution in my research. My method for determining the reliability and life expectancy of an aircraft takes safety fully into account. It is based upon a scientific foundation and it has been proven through repeated experimentation. When you determine the life expectancy of a

certain aircraft, the first thing you do is look at the statistics and theory and pick out the life expectancy of the weakest aircraft of whatever type you are looking at. Then you find the life expectancy of the weakest link in that weakest aircraft. When you know the life expectancy of the weakest aircraft and the weakest link in that aircraft, then you can be certain of the life expectancy of that type of aircraft. When we determine the life expectancy of an aircraft, we do so on the basis of its weakest link. When you use our method, not only can you reliably determine the overall life expectancy of a given model of aircraft, but you can also fully tap the useful life expectancy of the aircraft structure in a rational manner. You can reap big benefits for society by ensuring an aircraft's safety and reliability at the same time that you achieve huge economic benefits by taping the full life expectancy of an aircraft." He showed us the part in the "User Comments" where the person wrote about the A-5 life expectancy assessment that the final life expectancy and maintenance schedule arrived at when using the theories of Professor Gao had a reliability rating of 99.999 percent and a credibility rating of 95 percent. Wang Yingde [3769 2019 1795], the chief editor of the BAU newspaper who accompanied me on my interviews, laughingly asked, "After all the money you've saved for the state, how much have you gotten for yourself?" Professor Gao shook his head, "If I can do anything for the state, I won't worry about these sort of things. I just want to use the results of my theoretical research to make a bit of a contribution to Air Force construction efforts and train a few people for the state at the same time. That's the goal of my life."

BAU and the Air Force Are a Single Family

During my visit to BAU, I got the strong feeling that BAU and the Air Force, with the way they help each other out and work elbow to elbow, are as close as members of the same family.

Taking advantage of the lunch break, Guan Hanzeng, deputy director of the school's Scientific Research Division, accompanied me on a visit to the Beijing Museum of Aviation, which had been built on the foundation of this school's Aviation Exhibition Hall. You could see the real thing or model of every type of aircraft in the Air Force there. I thought about the fact that it was the first aviation exhibition hall in the country, and suspected that the Air Force Museum of Aviation must certainly have received some assistance from it when it was being built. That afternoon I made a telephone call to He Shuzhang [0149 6615 4545], deputy director of the Aviation Exhibition Hall, who told me that they had indeed donated three aircraft to the Air Force Museum of Aviation—one L-5, one YK-17, and one P-51. The Air Force had in turn given them a Z-5 helicopter and an A-5 attack aircraft. Deputy Director He said over the phone that "we each had something the other was missing so we helped each other out!"

Fang Fuzhi gave endless praise to the Air Force Command Academy for providing military training to the

students of BAU. On the second day of this past lunar new year, he braved a heavy snowfall to make his way to the Air Force Command Academy and express his gratitude to the leaders and instructors there. Wu Dengchun [2976 4098 2504], director of the Militia Department, estimated that from roughly 1974 to 1987, about 3,000 university students from BAU had received several weeks of training from the guided-missile troops, the flight academy, and at various airports. In 1987, the State Education Commission decided to carry out military training and military theory education among university students. The name for these activities has now been changed to National Defense Education. The Air Force Command Academy took charge of the military training task for BAU. They especially set up a BAU university student military training office and transferred key instructors from the teaching groups to go there. Most of the instructors that they chose at first were career teachers. Every semester they held a teaching preparation conference in which they earnestly prepared for classes and gave trial classes. Deputy Secretary Fang said that they were not sure at first whether they would be able to keep students interested in the military courses because university students now are particularly uninterested in certain subjects. He had not imagined that the instructors from the Air Force Command Academy would give such good courses or that the military theory course would have one of the highest attendance rates. Once, the car in which the instructor was riding to class broke down and could not be fixed. The instructor ran all the way to the classroom and arrived two minutes late. When he arrived huffing and puffing at the podium and expressed his regrets, all the students in the room broke out into enthusiastic applause! What you have to understand is that these students are usually very put off when their teachers arrive late.

Not only did the Air Force instructors in charge of military training teach their courses well, but they paid close attention to political and ideological work, and set an example at all times. This was especially true of instructor Liu Chufan [0491 2806 0416]. His teaching was marked by a high degree of competence, and he was also very humorous, and frequently had his students laughing. He got along very well with his students and made a lot of friends. Once, it began to rain during class, and afterward he noticed that a few students had not brought their umbrellas, so he escorted them to their dormitories with his own umbrella before going back. During summer vacation in 1987, 1,300 new students from the class of 1986 went to a certain Air Force airport where they underwent military training. Instructor Liu also went. As soon as he got there he took the lead in digging latrines and cleaning up, earning the profound respect of the university students. Whenever the students ran across any problems during the course of military training, they always went to him to get them solved.

The instructors at the Air Force Command Academy must now teach new freshman 54 hours of military

theory every year. In addition to the unified teaching material required by the State Education Commission, BAU has also added two courses of its own: "Introduction to the Air Force" and "Aviation Technology and its Military Applications." Among the several dozen universities in Beijing, the students at BAU have always come out at the top in military training work. Other universities look upon BAU with envy, and several have expressed the hope that the Air Force Command Academy can also take charge of military training for their own students.

I only visited BAU for two days. Although I had a very full schedule, I still felt that there was too much to learn, too little time, and that I was trying to "look at flowers while galloping on horse back." However, BAU and its people made an unforgettable impression upon me. I was left with a very clear image in my mind—BAU and the Air Force are underneath the same patch of blue sky.

Jiangxi Conference Stresses Role of Military

91CM0214A Nanchang JIANGXI RIBAO in Chinese
20 Dec 90 pp 1, 4

[Article by Yang Yunyong (2799 6663 0516) and Chen Xinlin (7315 2450 2651): "Provincial Conference on Embracing the Military, Giving Preferential Treatment to Dependents and Embracing the Government, Showing Compassion for the People Begins in Nanchang"]

[Text] On the morning of 19 December, the opening ceremonies of the "province-wide embrace the Army and give preferential treatment to dependents, embrace the government and show compassion to the people work conference" held by the provincial government and the provincial military district, were carried out in the auditorium of the provincial military district's guesthouse. Many leaders from the provincial party committee, the provincial Advisory Leadership Group, the provincial Discipline Commission, the provincial People's Congress, the provincial government, the provincial People's Political Consultative Conference, and the provincial military district attended the meetings, including Mao Zhiyong [3029 5268 3938], Wu Guanzheng [0702 1351 2973], Liu Fangren [0491 2455 0088], Jiang Zhuping [5592 4376 1627], Zhang Chuanshi [1728 0278 6108], Liu Zhonghou [0491 0112 0168], Wang Zemin [3769 3419 3046], Yang Yongfeng [2799 3057 1496], Zhang Yujiang [1728 3768 3068], and Zhong Qing [0112 7230]. The former deputy director of the Civil Affairs Department, Pan Yongge [3382 3057 9295]; the deputy director of the Political Department of the Nanjing Military Region, Major General Hong Jiade [3163 1367 1795]; the political commissar of the Nanchang Army Academy, Major General Yang Linxiong [2799 2651 7160]; and the deputy political commissar of Unit No. 39120, Major General Qiu Hanwen [6726 3352 2429], also attended. The meeting was chaired by Wu

Guanzheng, who is serving concurrently as the deputy chairman of the provincial party committee and as the provincial governor.

The opening address was delivered by Major General Zhang Chuanshi, commander of the provincial military district.

Jiang Zhuping, who is serving concurrently as deputy secretary of the provincial party committee and as deputy provincial governor, presented a report on "embrace the Army, give priority to dependents" work. He stated that since the province-wide meeting in 1987 in which experience regarding the "double embrace" program was exchanged, province-wide "double embrace" work has developed amidst reform and has led to new results. The leaders and men of the People's Liberation Army [PLA] and the People's Armed Police [PAP] stationed in Jiangxi Province have inherited the revolutionary tradition of Jinggangshan and have carried it forward to greater glory, resolutely adhering wholeheartedly to the objective of serving the people and aggressively carrying out "embrace the government, show compassion for the people" activities at the same time that they fulfilled combat preparedness and training tasks. In all of these things they achieved significant successes. They have assisted in the economic construction of Jiangxi Province, contributed to the development of poverty-stricken areas, preserved social order and stability, saved people from distress and disaster, saved people in life-threatening situations, helped the injured, pitched in to build up a socialist spiritual culture, pitched in to educate people who would be useful in both the Army and at the local level, and studied Lei Feng. By doing all of these things, they have garnered new merit in serving the people and have made a spot for themselves in history on the same red earth where the Red Army had battled in the past. Especially during the political turbulence during the summer of last year [1989], the forces stationed in Jiangxi Province unequivocally opposed the unrest and made a major contribution in stabilizing Jiangxi Province.

Jiang Zhuping stated that in order to strengthen the awareness of national defense as well as the concept of "embracing the military and giving preferential treatment to dependents" among the cadres and the masses, Jiangxi Province has carried out a broad and deep program of national defense education, whose primary content has been the Jinggangshan revolutionary tradition which we have inherited and carried on to greater glory. In recent years, Jiangxi Province has inherited and carried forward the excellent tradition of strengthening the legal construction program which calls for "embracing the military and giving preferential treatment to dependents." This was carried out in the soviet area, and the province has put the issue of establishing and perfecting the policies, laws, and regulations regarding "embracing the military and giving preferential treatment to dependents" onto the agenda of party committees and every relevant government department at every level. At the present time, there are 22,000 year-round

grassroots military dependent service organizations throughout the province guided by the government and actively supported by the masses. Every year more than 200,000 people participate in ad hoc service activities such as "women delivering warmth," "middle and elementary school students' after-school service teams," "militia assistance to comrades-in-arms," and "party and Communist Youth League assistance teams." In order to provide qualified men for the military, government and People's Militia departments throughout the province have adopted a series of feasible measures to put people through rigorous physical, cultural, and political examinations so as to send talented youth with good ideology, good health, and a high level of culture to the Army. Since 1987, employment has been found for more than 1,140 retired military cadres and civilian employees of the military, 6,165 military cadres who have switched to other professions, and 45,805 discharged soldiers. The military, local areas, and individuals have all basically been satisfied. Since 1987, in the midst of fiscal difficulties, we have still managed to think of every way possible to squeeze out enough funds to support troop construction. The cumulative total of 17 million yuan of economic assistance has been rendered free of charge to troops of the PLA and the PAP troops stationed in Jiangxi Province, and these units have been given land, mines, places to do business, and preferential treatment in the supply of electricity, coal, raw and semi-finished materials, loans, and taxes. For materials in short supply, they have been given preferential treatment in terms of quantity and price. Upon the basis of the campaign in which the military and the people work jointly to establish a spiritual civilization, every local area throughout the province has launched a movement to "embrace the military with all one's mind, apply one's mind to giving preferential treatment to dependents," as well as activities in which "the military, local areas, and households work together to educate soldiers." According to preliminary statistics, the entire province in recent years has trained more than 10,000 people at the level of senior high school or higher for the troops stationed in the Jiangxi Province, and they have also given vigorous support to troop construction by training a large number of mechanics for automobiles, tractors, and agricultural machinery, as well as workers for such activities as animal husbandry, processing, cooking, journalism, photography, and calligraphy. More than 200,000 households in difficult straits throughout the province have been given assistance in developing production; of these, 85 percent have escaped poverty and 15 percent have become rich. In order to stabilize the troops, the various local areas have done a lot of hard work to help the dependents of volunteer soldiers to cash certificates for special treatment funds, take care of household registration, get jobs, find housing, rearrange job assignments, visit relatives and get time off, enroll sons and daughters in child-care facilities and schools, and to take care of daily problems. In order to provide a measure of security for people in need of special assistance, the state and local governments have increased funding for these services every year in spite of difficult fiscal situations.

Expenditures on these services every year throughout the province now amount to more than 48 million yuan, of which more than 31 million have come from the fiscal coffers of local governments. At present, more than 20 counties and municipalities throughout the province have implemented such programs and put them under unified administration at the county level. The former preferential work points have been abandoned in favor of preferential funds. The collection of these preferential funds, which used to be done at the township level, is now done at the county level. The scope of preferential treatment has expanded from the countryside to include cities, and the use of preferential funds has changed from the former emphasis on simple sustenance to a focus on assisting production and facilitating mutual help.

Jiang Zhuping stressed that in our future "embrace the Army, show compassion for dependents" work, we must take the party's fundamental line of "one center, two fundamental points" as our basic guidepost, hold high the flag of patriotism, adhere to the system of helping those in need. This principle combines the state, society, and the masses. We must also consolidate and develop mass organizations which help people in need, and we must work to enable Jiangxi Province's "embrace the Army, give preferential treatment to dependents" program to establish for itself a legal, systemic, and social framework. We must work to stabilize and develop the state, construct and reform the Army, and provide assistance to those in need. Leading government and party cadres at every level must earnestly study and deeply understand the televised speech which Comrade Jiang Zemin gave on the 63d anniversary of the founding of the Army, in which he urged us to firmly establish in our minds the concept that "we must preserve military-party unity as well as unity between the military and the masses just as we preserve our own eyes. As we work to promote the stability and development of the state and to promote a high level of troop construction and reform, we must give high priority to the "embrace the Army, give preferential treatment to dependents" work, and we must take it upon ourselves to preserve unity between the military and the party and between the military and the people. We must include "embrace the Army, give preferential treatment to dependents" propaganda and ideological work within the over all curriculum of national defense education. We must take the excellent tradition of Jinggangshan and patriotism as the main theme and adopt various methods to educate the broad masses of cadres and people. We must continually perfect and earnestly implement the various policies and regulations associated with the program of "embracing the military and giving preferential treatment to dependents." We must continue to consolidate and perfect organizations which provide assistance to those in need, and work unflaggingly to consolidate and develop activities established jointly by the military and the people. We must work hard to make a contribution to the effort to consolidate and develop the new-style relationship

between the military and the government and between the military and the people, and to strengthen national defense construction.

Major General Zhang Yujiang, political commissar of the provincial military district, presented a report on "embrace the government, show compassion for the people" work. He said that since July 1987, under the direct leadership of the party Central Committee, the State Council, the Central Military Commission [CMC], the Nanjing Military Region, and the Jiangxi provincial party committee, the troops stationed in Jiangxi Province have earnestly carried out the various tasks set forth in the conference, steadfastly used the glorious revolutionary tradition of Jinggangshan to educate the troops, and worked hard to get their activities underway, thereby achieving much new progress in the "embrace the government, show compassion for the people" work, both in terms of content and form, creating much new experience.

Zhang Yujiang stated that, at the same time they were maintaining their own high level of stability and unity, the troops stationed in Jiangxi Province were also carrying out the basic functions of a people's army and actively preserving overall stability. During the political turbulence of the spring and summer last year, the provincial military district, Nanchang Army Academy, the Navy Logistics Department Military Office, Unit No. 32260, Unit No. 32380, Unit No. 39826, the main force of the provincial PAP, and the main force of the firefighters dispatched more than 300 propaganda teams to the factories, streets, villages, and work units in the areas where they were stationed to carry out propaganda activities and to help the masses to clearly understand the true nature of the unrest and the counterrevolutionary rebellion. Every organ in the People's Militia department acted in accordance with the instructions of their superiors as well as the requirements of the struggle and quickly organized more than 1,000 militia emergency response fendui, which patrolled day and night. In order to stabilize and develop the peaceful and unified political situation in Jiangxi Province, the troops stationed in Jiangxi Province worked together with departments of the People's Militia by activity assisting local areas in their efforts to preserve social order. They dispatched 5,403 patrol units and teams, 6,136 vehicles, and played an important role in striking a blow against criminals, stamping out smuggling, and sweeping away the "six vices." In the past three years, the troops stationed in Jiangxi Province have regarded their efforts to stabilize society as the starting point and foundation of military-civilian joint constructing projects, and they have been very effective in raising the ideological and political consciousness of the masses involved in joint construction projects. They were subjected to a severe test during the effort to curb the unrest and put down the rebellion. They preserved and developed the peaceful and unified political situation, enabling this movement, on the bases of its previous achievements, to bring about further progress. So far, the troops stationed in Jiangxi

Province have taken part in 959 military-civilian joint construction projects. There have been 3,400 construction projects involving militia participation, among which 487 were military-civilian joint construction projects. There have been 1,272 construction projects involving militia participation which have been named civilized work units by leadership organs at the county level or above. In order to facilitate efforts at cooperation in military-civilian joint construction activities, the provincial military districts and military subdistricts have taken the initiative to coordinate the joint construction activities of troops stationed in the province. The General Political Department and the Nanjing Military Region have both worked to spread the word about the Provincial Military District's experience.

Zhang Yujiang stated that the troops stationed in the province have, of their own accord, looked upon assistance to the masses in older areas in escaping poverty and achieving wealth as concrete steps in the effort to carry out the state's economic construction program, support the state's program of improvement and rectification, and deepen the reforms. They have provided a large amount of human and material support. In an effort to assist local areas, the various units have contributed more than 263,000 labor days, dispatched more than 23,000 vehicles, participated in 2,563 construction projects and various types of functions intended for public welfare, repaired more than 49,000 agricultural implements, and planted 675,000 trees on a volunteer basis in the last three years, thereby accelerating the pace at which older areas have been able to escape poverty and achieve wealth. Their actions have also helped to promote economic development in older areas. The troops stationed in this province have kept firmly in mind their basic mission—to serve the people wholeheartedly. Every time, a disaster or a dangerous situation occurs, they always do everything they can to save state assets and preserve human life and safety. In the last three years, the troops stationed in the province and the People's Militia departments at all levels have dispatched more than one million officers, soldiers, and militia, 377 aircraft and ships, and more than 11,000 vehicles and pieces of machinery in order to save 9,812 people who had become endangered, along with 380,000 tons of all types of materials.

Zhang Yujiang stated that the troops stationed in Jiangxi Province have overcome various types of obstacles in recent years. They have adhered to and carried through with "study Lei Feng, do good deeds, and build up a new social climate" activities, thereby further building up the spirit of Lei Feng and effectively promoting improvement in the overall social climate. Since the beginning of this year, the troops stationed in this province have actively responded to the call of the party Central Committee and the CMC to educate the broad masses of officers and men to fully understand the strategic significance of military-civilian joint study of Lei Feng activities from the elevated vantage point of strengthened political construction. Throughout the province they

have organized rousing "joint study of Lei Feng" activities. The various hospitals, sanatoriums, clinics, and first-aid stations belonging to the troops stationed in this province have applied the study of Lei Feng to their own work by establishing strong medical ethics and enthusiastically preventing and curing the illnesses of the masses. In the last three years, they have treated more than 760,000 patients, saved more than 130,000 patients from serious illness, dispatched more than 430 medical units and teams, and trained more than 10,000 paramedics at the local level.

Zhang Yujiang stressed that the party committees, leaders, and organs in the various troop units must keep in mind the strategic significance of maintaining and promoting social stability and development as they carry out "embrace the government, show compassion to the people" work. They must strive to promote unity

between the military and the government and between the military and the people. They must do a good job with military-civilian joint construction projects by continuing to adhere to the principle of "relying primarily on local leadership, giving top priority to political and ideological work, and encouraging the masses to participate in self-construction." Due to the fact that Jiangxi Province is an old revolutionary base, we must pay special attention to assisting people in poverty. We must deal correctly with problems that effect military-government and military-civilian relations and sincerely support the work of local Party committees and governments. We must work hard to strengthen leadership and gradually perfect the various systems.

The Civilian Affairs Department sent a special telegram of greetings to the conference.

NORTH REGION

Beijing Organs To Select Employees Through Exams

OW0103065091 Beijing XINHUA Domestic Service
in Chinese 0319 GMT 28 Feb 91

[By reporter Li Xiaojian (2621 2556 1696)]

[Text] Beijing, 28 Feb (XINHUA)—The Ministry of Personnel is going to organize 20 departments of state organs to hold joint examinations in order to select ordinary functionaries for nearly 100 specialized organs in Beijing Municipality from 9 March. In order to tighten macro control, the examinations will be conducted in light of the need of the departments, the conditions of the natural staff decrease in the departments, and within the staffing limits ratified by the state.

The 20 departments to conduct the examinations are: the Ministry of Construction, the Ministry of Agriculture, the Ministry of Light Industry, the Ministry of Chemical Industry, the Ministry of Aeronautics and Astronautics Industry, the Ministry of Foreign Economic Relations and Trade, the Auditing Administration, the Ministry of Radio, Film, and Television, the State Family Planning Commission, the State Statistics Bureau, the State Environmental Protection Bureau, the State Administration of Building Materials Industry, the State Administration of Exchange Control, the State Administration of Traditional Chinese Medicine, the Nuclear Safety Administration, the State Bureau of Surveying and Cartography, the General Administration of Customs, the State Bureau of Secrecy, the Office of Overseas Chinese Affairs under the State Council, and the All-China Women's Federation.

The joint examinations are for on-the-job cadres (including those hired by enterprises) who meet the prerequisites for taking the examinations, have household registration records in Beijing Municipality, and have graduated from state-recognized universities or institutions above this level. The steps in the process of the examinations include open sign-up for the tests, examination of credentials, written tests, interviews, physical checkups, assessment and others. Excellent applicants who pass the assessment and tests will be selected for employment. The main purposes of the examinations are to further implement the guidelines on continuing the reform in cadre staffing system adopted during the Seventh Plenary Session of the 13th CPC Central Committee; consolidate and expand the staff selected through tests in the past; and put those who meet the organs' demands, as well as those who have both ability and political integrity, to the right posts. The time for signing up is from 9 to 11 March at the exhibition hall of the Institute of Scientific and Technical Information of China, located at No. 15 Fuxing Road, Beijing Municipality (west to the China Central Television Station building.)

Beijing Stages U.S. Drama, *Caine Mutiny*

OW2502082091 Beijing XINHUA in English
0759 GMT 25 Feb 91

[Text] Beijing, February 25 (XINHUA)—The Beijing People's Art Theater is staging the modern American drama, "The Caine Mutiny Court-Martial", at the Capital Theater of Beijing.

The drama, which was adapted from a novel written by American writer Herman Wouk, describes the proceedings in the court-martial of the crew of a U.S. warship, "The Caine," during the Second World War. The drama depicts the attitudes of the U.S. naval officers and sailors involved in the incident concerning their country, responsibility and honor.

"The Caine Mutiny" debuted in New York in 1954, and has often been staged both in the United States and Europe. The drama, which is acknowledged as a very good artistic piece, has a peculiarly conceived plot which unfolds simply by use of brilliant dialogue.

Director Charlton Heston, a famous American dramatist and film actor, said: "Military men from all countries may at some point come across the problem depicted in the drama and may wish to explore the significance. It is a problem beyond nations and cultures. I believe that the Chinese audience will derive an understanding of the drama, just as U.S. and European audiences."

XINHUA has learned that the Beijing People's Art Theater staged the drama successfully in 1988, both in Beijing and Shanghai, and has given nearly 60 performances. Beginning next April, the theater will stage the drama in Nanjing, Suzhou and Hangzhou in southern China.

Hebei Sets 1991 Organization Work Targets

SK0403133991 Shijiazhuang Hebei Provincial Service
in Mandarin 2300 GMT 2 Feb 91

[Text] A provincial conference of directors of Organization Departments under the prefectural and city party committees opened 2 February. Chen Yujie, member of the provincial party standing committee and director of the Organization Department under the provincial party committee, delivered a speech. She pointed out that in conducting the 1991 work, the province's organization front must continue to uphold the guiding ideology of rendering services for the party's basic line. It must further implement the provisions and arrangements made by the central authorities and the provincial party committee on enhancing party building by regarding the 70th anniversary of the CPC's founding as a turning point. It must emphatically do well in building the ideology and work style of leading bodies at all levels. It must vigorously upgrade the quality of the broad masses of party members and cadres. It must make efforts to

enhance the vigor of the grassroots-level party organizations. Finally, it must provide a solid and reliable guarantee for successfully enforcing the Eighth Five-Year Plan.

Chen Yujie stated in her speech that in making arrangements for the organization front's 1991 work, we should fully consider the country's and world's major environment. The issue of smashing the hostile forces' scheme of peaceful evolution, thus ensuring that people faithful to Marxism hold power at all levels, is very important in the organization front's work. The year 1991 is the first year in which the 10-year plan of the national economy and social development and the Eighth Five-Year Plan have been enforced. The coordinated program of economic construction and the task of accelerating the pace in opening to the outside world, which the provincial party committee has presented, have imposed new and higher demands on organization work.

Chen Yujie stated in her speech that enhancing the building of ideology and work style represents the fundamental of successfully building leading bodies. The principal leading comrades of party committees should realistically assume their duties, deal with problems in the ideology and work style of cadres, and submit themselves to supervision by the mass and the party organizations. Cadres themselves should also pay attention to their own ideological accomplishments and actively enhance their training in party spirit. The organization construction in the year mainly means upgrading the party members' quality and improving the structure. It is also for promoting and transferring cadres and for unswervingly upholding the principle of four requirements for cadre promotion and the standard of having both morality and ability.

Chen Yujie stressed in her speech that a good job should be done in unrelentingly constructing party organizations at grassroots levels and in further upgrading their fighting power. In carrying out party building among enterprises, a good job should be done in emphatically dealing with the problem of party organizations in enterprises failing to play their role as the political core. In conducting the work of building party organizations at grassroots levels, a good job should be done in emphatically consolidating the party branches which are lax and lack unity and are at a standstill or a semi-standstill.

In referring to the issue of how to upgrade the quality of party members in her speech, Chen Yujie contended that efforts should be made to enhance management and to set strict standards on them. She stated that we should earnestly do well in conducting the commemorative activities of the 70th anniversary of the CPC's founding this year, extensively and deeply conduct education on party spirit among party members, and further do well in conducting a democratic appraisal of the party members' work. In conducting the education on socialist ideology among rural areas, we should do a good job with a definite purpose in solving the problems of the deviations that rural party members have committed. Efforts

should be made to implement the principle of upholding the standard, ensuring the quality, improving the structure, and achieving careful development. A good job should be done in seriously conducting the work of developing party members.

Chen Yujie also stressed in her speech that we should earnestly summarize our experiences, further deepen the reform drive in the personnel affairs systems, continue to uphold or improve the system of avoiding the personal influence in personnel exchanges, improve the method of democratic appraisal of the leading cadres' work, upgrade the quality of appraisal work, continue to uphold the system in which cadres are able to work in both upper and lower units, enhance the management over the employment of cadres at the township-town level, strictly enforce the retirement system of cadres, and realistically do a good job in conducting the work of veteran cadres' affairs.

Li Chuanzan, deputy secretary of the provincial party committee, also attended the meeting.

Tallest TV Tower Set To Transmit in Tianjin

*OW0902112991 Beijing XINHUA in English
1021 GMT 9 Feb 91*

[Text] Tianjin, February 9 (XINHUA)—Asia's highest TV transmitting tower will go into trial operation from February 14, the eve of the Lunar New Year, in this north China coastal city.

Experts say that the tower, at 415.2 m, is the tallest in Asia and also the third-tallest in the world.

Residents of Tianjin will have access to two more channels—Channel 29 of the Tianjin TV Station and the Second Program of the China Central TV Station.

With a designed capacity to transmit seven TV programs, nine FM stereo and microwave programs, the tower covers an area of nearly 22 ha.

Tourists will be able to have a bird's-eye view of the city from a hall 253 m in the air.

NORTHWEST REGION

5,000 Left Homeless by Xinjiang Earthquake

*HK2702054591 Hong Kong AFP in English 0526 GMT
27 Feb 91*

[Text] Beijing, Feb 27 (AFP)—More than 5,000 people were left homeless in sub-zero temperatures after a strong earthquake destroyed or damaged more than 8,400 houses in western China, the Civil Affairs Ministry reported Wednesday.

Aftershocks continued to rattle Keping county in Xinjiang region, where the earthquake measuring 6.5 on the Richter scale hit late Monday causing 10 million yuan (1.9 million dollars) in losses, a ministry statement said.

Eleven people were injured during the temblor, the statement said. At least 120 houses collapsed and 2,820 were uninhabitable after being seriously damaged while 5,621 houses suffered minor structural damage, it added.

More than 5,000 people were left homeless and were forced to camp outside in freezing temperatures, the statement said, adding that the victims were in need of blankets, heating fuel, medicine and clothes.

The affected area in northwestern Xinjiang, near the Soviet border, is an arid, wide-open region populated mostly by Moslem Uygurs, Kazakhs and Uzbeks.

No Deaths in Xinjiang Earthquake

*HK0103053291 Urumqi Xinjiang Regional Service
in Mandarin 1600 GMT 28 Feb 91*

[Text] A working group led by Mao Dehua, vice chairman of the Xinjiang Uygur Autonomous Regional People's Government, arrived on the morning of 26 February in Kalpin County, which was hit by an earthquake, to express sympathy and solicitude for the masses there and provide guidance for the work to provide disaster relief.

Upon arriving in the disaster area, the working group called a rally to convey the regional party committee's and government's regards to and solicitude for the masses in the disaster area and listened to a report on the relief work. Later the working group visited units which had been severely afflicted, including the hydraulic engineering team, the Farm Machinery Bureau, and the Public Security Bureau in the county and [words indistinct] to express sympathy and solicitude. They told local cadres to help earthquake victims to build simple earthquake-proof houses as soon as possible and make adequate arrangements for the daily life of the local people.

The working group also went to hospitals, schools, offices, and power stations to find out how they had been affected. A county-wide survey showed: A total of 120 civilian houses collapsed; 2,800 houses became uninhabitable; 560 houses sustained damage in varying degrees; five people were slightly injured; three domestic animals died; and no human deaths were discovered.

At present, the local people are in a calm, unruffled mood, society is in good order, and water and power supply and transport, postal, and telecommunications services remain unaffected.

Review of, Comment on Events in Taiwan in 1990

91CM0211A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 52, 24 Dec 90
pp 21-22

[Article by Hsin Chi (6580 2475): "Taiwan: 1990 Was a Year of Unconstrained Ups and Downs"]

[Text] For Taiwan Island's internal situation, 1990 was a year of unconstrained ups and downs. The changeover in political and economic models entered a crucial stage. The unusual state of the operating mechanisms in politics, the indeterminate relationship between the two sides of the strait, the economic chaos in the transitional stage, the daily worsening situation in public order, and so forth, intensified the crisis of confidence in society, a crisis that was originally widespread.

A Turbulent Year

At the beginning of the year, the sharp drop in the stock market seemed to presage an unfathomable year. Then Wang Yung-ching [3769 3057 1987] went to the mainland to inspect the exposure of its investment environment, and the resultant shock affected political and economic circles.

Early spring had just begun when, centering on the "presidential" election, the highest stratum of the KMT came close to splitting. Through political deals between various factions and through the good offices of senior statesmen, Li Teng-hui, with his specific program and style, was elected. In April and May there were cabinet reshuffles, and Hau Pei-tsun, a man with a military background, took the premier's post, causing a big upheaval in society. With students in the vanguard, all circles of Taiwan society called, one after another, for the dissolution of the "National Assembly" and for the abolishment of the "Temporary Articles." They drew up a "reform schedule," and all factions in the government and the public waited for the opportunity to make use of the student unrest to attain their political goals. The activities of the "Taiwan independence" movement became unprecedentedly rampant. The authorities had to hastily decide to hold a "National Affairs Conference" to discuss "constitutional reform."

At the beginning of July, following repeated diplomatic successes by the Chinese mainland, the Taiwan authorities declared that there would be a "cooling of the mainland fever" and that they would pursue a strategy of making a breakthrough in "pragmatic diplomacy." People at the highest level in government began to readjust the decisions on mainland policy and their implementing mechanisms. They set up the "Li Teng-hui Presidential Palace National Unification Committee." However, with the first onset of autumn winds, Taiwan sent a delegation to attend the Asian Games in Beijing in order to promote a revival of the "mainland fever." In October, at a delicate juncture in the dispute over the sovereignty of Diaoyutai [Senkaku Islands], the small boat carrying the torch of the Taiwan Athletic

Association was unjustifiably intercepted by Japanese naval forces while on its way to Diaoyutai. All quarters of the government and the public were indignant, and there was a new upsurge in the movement to protect Diaoyutai. In November Taiwan and Nicaragua "resumed diplomatic relations," and the "Foundation for Interchange Between the Two Sides of the Strait" was established. After passing in October a resolution on the "de facto sovereignty and independence of Taiwan," the Democratic Progressive Party set up a "Taiwan Sovereignty and Independence Movement Committee" and put forward a "law on relations between Taiwan and the Chinese mainland." In Taiwan there was a constant escalation of the activities of the "Taiwan independence" movement, and in various quarters there were cries of alarm about "many secret concerns."

Initial Common Understanding of "Constitutional Government" Reform

The changeover in Taiwan's political model had just begun, when, on entering the nineties, the "six major topics in party and government reform" became more and more contracted to one point, namely, a large-scale "revision of the constitution" and a "return to the system of constitutional government." Various circles in society, including part of the new generation in the KMT, starting from the "rational concepts of Western-style democracy," strongly demanded that the political status quo be reformed. At the end of last year and the beginning of this year, they focused on the issue of the resignation or discharge of "representatives of the popular will at the center." Afterward, through the unrest in the general election, their spearhead was pointed directly at the essence of Taiwan's "political system": the "system of mobilization for suppression of rebellion" and the "system of justice" that safeguards the interests of one party.

In May various circles in Taiwan put forward clear-cut propositions, namely, "abolish the Temporary Articles," "return to constitutional government," "make a full reform of the National Assembly," "hold open, direct presidential elections and hold direct elections for the president of Taiwan Province and for the mayors of cities directly under the Yuan." The "National Affairs Conference," which was held to resolve the major political crisis, made the authorities realize that "constitutional government reform" was a matter of first importance for maintaining Taiwan Island's internal stability. On 21 June the Council of Grand Justices passed "Document No. 261 on Interpretation of the Constitution," which made the decision that all "representatives at the center who were democratically elected in the first session" had to resign before the end of 1991. On 16 July the KMT set up the "Constitutional Government Reform Planning Group," which asserted that it had a specific plan for completion of the "reform of the central government" within 10 months.

However, a "return to constitutional government" would mean the immediate loss of the "system of justice," and the "constitution" would be the "constitution" of the Taiwan region. The Taiwan authorities would face the difficult problems of a "de jure" recognition of the mainland regime and of a comprehensive opening up of contacts with the mainland. Now, on the basis of the "Temporary Articles," the authorities have imposed many restrictions, under "law," on contacts between the two sides. Once the "period of mobilization for suppression of rebellion" ends, the problem of the "source of law" at the "constitutional" level for the relations between the two sides would have to be solved.

Seeking a good strategy, the Taiwan authorities urgently await the establishment of an officially authorized "intermediary organization," which would revolve around a "politically sensitive region" and realistically face the disputes arising from contacts between the two sides. In June 1990 Taiwan proposed that the question of relations between the two sides be addressed after "revision of the constitution" on the basis of the policy of "one country, two regions" and the "theory of legal conflicts." In September the "Executive Yuan's" mainland work committee reported that at its last session it had passed the "draft amendment on the regulations between the peoples of the Taiwan region and the mainland region" and the "main points for the Executive Yuan's appointment of nongovernmental bodies to deal with mainland affairs." On 11 September the "Constitutional Government Reform Planning Group" made a list of 150 laws and regulations that should be revised in order "to put an end to the mobilization for suppression of rebellion." Afterward, the planning group publicly announced that the "second stage in revision of the constitution" would be completed at the end of 1992. Not long ago an officially authorized "Foundation for Interchange Between the Two Sides of the Strait" was formally established. The actions urgently taken by the Taiwan authorities with regard to the "intermediary organization" and the "Law on Relations Between the Two Sides of the Strait" mean the preservation in disguised form of the "system of justice," putting relations between the two sides in Taiwan's new "constitutional government system," so that the problems arising from contacts between the two sides can be effectively controlled by the KMT within a certain range.

Adjusting the Mainland Policy, Stressing the Initiative in Attack

In recent years there have been very big changes in the development of relations between the two sides. There have been increased contacts between them in economic relations and foreign trade, in culture, and in sports, and the original mainland policy has become highly unsuitable for the actual situation. The Taiwan authorities face the problems of what the relations between the two sides will be as well as of what their new mainland policy will be. On 26 May, in his "presidential" inaugural speech, Li Teng-hui, when talking about mainland policy, avoided

mentioning the "three no's" [no contacts, no negotiations, and no compromises] policy. He indicated that he was willing to see, on a "position of equality" with the mainland, a pipeline set up for contacts between the two sides. He formally put forward the position "one country, two governments" while attaching preconditions that the mainland could not accept.

Against the larger background of changes in the international structure, this "inaugural speech," stemming from the needs of Taiwan's internal situation and its internal and external policies, proposed the establishment "politically" of "reciprocal" relations between the two sides, thereby showing the fundamental position of the Taiwan authorities on handling relations between the two sides. This was the most significant adjustment of mainland policy in 40 years. The differences between this policy and that of the Chiang Ching-kuo era are: It declares that the "period of mobilization for suppression of rebellion" will be ended as soon as possible, recognizes that the Chinese Communists have the power to govern the mainland, and indicates that it will make linkages and contacts with the mainland government under certain conditions.

It should be seen that there is a point in which the Taiwan authorities' adjustment of their mainland policy is in step with the "constitutional government reform" on the island. For the so-called "return to constitutional government" the "Temporary Articles" must be abolished, as must the legal hostility to the mainland; also, there must be a renewed search for a new "legal" position on the relations between the two sides. The Taiwan authorities have taken great pains to define the concepts of "one country, two governments" and "one country, two regions," and this is sufficient to show their embarrassment at the disparities between politics and "law," between the "system of justice" and reality.

After the Taiwan authorities in the first half of this year effected major movements in policy, they turned to setting up the corresponding organizations for policy decisionmaking, coordination, and implementation; redetermined the grouping of tasks; and set up the "Presidential Palace's" "National Unification Committee" and the "Executive Yuan's" "Mainland Committee." Although these organizations play a certain role in the scramble for power at the highest level, to a certain degree they also ensure that the authorities advance their mainland policy in a measured way.

The Taiwan authorities' mainland policy reflects the unrealistic illusions about the mainland that they cherish, and it possesses a great deal of flexibility. Under the premise of ensuring "Taiwan's security," in moving forward they try to obtain, by means of "one country, two governments," a position of reciprocity with the mainland; try to promote, through cultural, economic and trade exchanges, the mainland's "peaceful evolution"; and try to attain unification on the model of East Germany and West Germany. In moving backward, they try to ensure that Taiwan, as an "independent political

entity," for a long time maintains the situation in which the two sides are "peaceful but not united" and "separate but not independent." In line with this tactic, the Taiwan authorities from first to last put the political contacts between the sides in an impracticable category.

Striving With Economic and Trade Forces To Return to International Society

Beginning in the second half of 1989, the Taiwan authorities, in view of the changes in the international situation and Taiwan's economic and trade superiorities, launched a "diplomatic offensive," in which they roped in some small countries by "establishing diplomatic relations" or "restoring diplomatic relations" with them, and promoted "substantive relations" with East Europe and the Soviet Union.

In 1990 the Chinese mainland restored or established diplomatic relations with Indonesia, Saudi Arabia, and Singapore, thereby drawing the interest of international society and giving Taiwan a sharp shock. To turn the tide in their favor, the Taiwan authorities anxiously sought countermeasures, indicating that they would think up new "diplomatic" tactics and engage in "omnidirectional diplomacy." They would strengthen their substantive relations with the United States, Japan, and the major countries of West Europe; develop economic and trade relations with East Europe, the Soviet Union, and other countries; maintain and expand Taiwan's advantages in international affairs; send delegations to or set up offices in countries with which Taiwan does not have diplomatic relations in order to obtain, in essence, "diplomatic" rights and conveniences; and strive to squeeze into international organizations like GATT in order "to stabilize Taiwan's position as an international legal body" and "to enhance its position as an entity."

The Taiwan authorities also put emphasis on coordinating their "pragmatic diplomacy" with their mainland policy, and on coordinating the principle of "one country, two regions" and "dual recognition" with "flexible diplomacy." This principled stand, which focuses on

the mainland's foreign relations—the "one China" position—suggests that the Taiwan authorities want, proceeding from getting a share of sovereignty and a separate holding of the power to govern, to have in essence "two Chinas" or "one China, one Taiwan." The Taiwan authorities have time and again demanded that the "mainland promise not to use armed force against Taiwan," and the pretext of "presenting one diplomatic face in the guiding principle toward Taiwan" seems pedantic and unrealistic.

Summing up what has been said above, in a year in which sharp changes occurred in the international strategic structure, Taiwan adapted itself to these changes. On the one hand it did its utmost to stabilize the island internally, pushed the party and government reform to the stage of "constitutional government reform," and made every effort to complete the changing of models within a short period of time and to achieve a new state of political, economic, and social equilibrium. Adjusting its mainland policy, it continued to relax its relations with the mainland. On the other hand, with regard to the mainland it held to its illusion of "waiting for changes in the Land Under Heaven [China]"; intensified expansion, by "flexible diplomacy," of its international living space; and, sticking firmly to the view that politics is the highest principle in relations between the two sides, artificially delayed the progress of many-sided contacts between the two sides. It is estimated that for a period of time in the future the Taiwan authorities will be faced with the question of what their own position will be after the "return to constitutional government; the question of how to stop the "Taiwan Independence" forces in a pluralized society; and the question of how, under "law," to handle the substantive problems arising from exchanges between the two sides. There is not one of these questions that does not relate to Taiwan's future, that does not affect the stability of Taiwan's political situation, and that does not put in a nutshell China's unification—this theme of the times. Only by taking some more constructive actions to accelerate the pace of unification can the Taiwan authorities untie the many "tight knots" that will appear frequently in transactions on the island in the future without causing harm to the prosperity of the Taiwan populace and to the interests of the entire nation.

DPP Legislator Lu Hsiu-i Profiled

91CM0249A Taipei TZULI WANPAO in Chinese
13 Jan 91 p 2

[Article by staff reporter Peng Lin-sung (1756 3218 3247): "Lu Hsiu-i—'Naughty Old Boy' Vaults Onto International Stage"]

[Text] Legislator Lu Hsiu-i [4151 0208 0001], a silver-haired "naughty old boy," for days in succession comes into the Legislative Yuan to engage in government-public contention. Good at wielding both pen and sword and the first to take on an enemy, he pushes conflict to its highest point. By abruptly bringing to the fore issues of system and structure, he not only has become the focus of the domestic news media, but has also appeared in NEWSWEEK. The role he plays is being watched with great interest.

One of the distinctive features of Taiwan's education over the past 40 years has been that, under the Greater China ideology, it has always revolved around Kuomintang [KMT] party indoctrination. The knowledge of students educated in this rigid ideology often collapses under the blows of the external environment. For Lu Hsiu-i, as for the majority of Taiwan students who have studied abroad, this study abroad was a process of enlightenment and the starting point of rethinking for self-growth.

Lu Hsiu-i was born in 1941. After attending Chienkuo Middle School and studying in the Political Science Department of the National Chengchi University, he entered the master's degree class at the Political Science Institute of the University of Chinese Culture. As he himself has said, under the party's educational system he "grew up drinking KMT milk." Although he deeply held ideas about democratic politics, anticommunism and Greater China were the center of his thoughts and concerns. In 1969 he left Taiwan to study abroad, at Belgium's Louvain University. After three years he transferred to the University of Paris to pursue advanced studies. This period of his study abroad was precisely the period when Taiwan's international position was becoming critical. As a result, Lu gained another new understanding of the KMT's essence, and he rethought Taiwan's position. Before his eyes the concept of Taiwan's independence gradually took shape. In 1969, along with other Taiwan students studying abroad, he founded in Belgium the first society of Taiwan fellow countrymen. In 1970 he founded the European federation of societies of Taiwan fellow countrymen. That he used the name "Taiwan" for this federation signified the change in his individual political ideology. For him, Taiwan and China had now been separated!

Actually, an inkling of the change in the country he identified with could be seen in the difference in the topics of his master's thesis in Taiwan and his doctoral thesis in France. The topic of Lu Hsiu-i's master's thesis at the Political Science Institute of the University of Chinese Culture was *A Study of Lien Ya-tang's* [6647

7161 1016] *Idea of the Nation*. Lien Ya-tang's thesis that the idea of the "Chinese" nation meant that Taiwan's development had to be integrated with China's destiny became part of Lu's thought and knowledge in his early period. Following his study abroad and the gradual formation of his idea of Taiwan's independence, in 1972 Lu Hsiu-i discovered, in two books of historical materials on the political movements in Taiwan during the period of Japan's occupation of the island, which were compiled by a Japanese, Kintaro Yamanabe, that the Taiwan people had founded a Communist Party as early as the twenties. The party had put forward two clear-cut propositions, namely, "the attainment of Taiwan's independence" and "the founding of the Republic of Taiwan." When in 1980 Lu Hsiu-i went to France a second time, he completed his doctoral thesis, *History of the Taiwan Communist Party During the Period of Japanese Occupation (1928-1932)*. For him the romantic picture of China shaped by Lien Ya-tang's thesis on the idea of a Chinese nation had long been swept away; on the contrary, his view was that "Taiwan is Taiwan, Taiwan can exist alone, and Taiwan's existence in itself has meaning and is an objective."

However, Lu Hsiu-i's activities in the mass organizations of Taiwan people abroad and his study of the Taiwan Communist Party drew the attention of intelligence and security units. In particular, his contacts with the old Taiwan Communist Shih Ming-chien [0670 2494 7035] had more effect on his later being thrown in prison for his idea of Taiwan's independence. In 1983, when Lu Hsiu-i was the director of the Political Science Department of the University of Chinese Culture, in the "Chientien-Kuangchih Taiwan Independence Case" he was indicted for the crime of making rebellion for Taiwan's independence and sentenced to three years of reformatory education. With regard to "the ideas in one's innermost being," which had to be ferreted out in the period of martial law, Lu Hsiu-i's position was frank. In this case he was taken into custody on the charge of inciting rebellion on behalf of the Chinese Communists, a charge that remains perplexing despite much thought, because the case occurred at precisely the time when the Chinese Communists were advocating the "three exchanges and four contacts" and cultural and educational circles were "drifting." However, proposals for exchanges made the KMT watchful and fearful. Therefore, it has been said that in this case the behind-the-scenes instigation by the Chinese Communists was revealed, and so the KMT intentionally "killed the chicken to frighten the monkey"—punished someone as a warning to others. Later, following the launching of the independence movement and the gradual opening up of politics, Lu's case in actuality became the last political incident on campus in Taiwan in the past 40 years.

After three years of reformatory education, Lu Hsiu-i was dismissed from his post at the University of Chinese Culture. Later, after making the rounds, he obtained a teaching post at the National Chinghua University. He formally joined the Democratic Progressive Party [DPP]

and took part in the opposition movement, a move that gradually led him onto the political platform. Through his practice and experience as director of the Foreign Affairs Department in the DPP Central Headquarters, Lu gained a great deal of attention in the party. In 1985 he became part of the New Tide Faction; chosen by the party to stand for election to the legislature, he was duly elected. After a brief learning period he began to display his spirited approach with each passing day. His capability in political science made him the focus of attention in bill examination and policy debate. His individual nature of never compromising and sticking to his ideas made it easy for him to abandon the posture of a doctor of philosophy and scholar, and on every occasion in which there was contention or conflict he was in the forefront. His idea was to force changes in the system by contending on the suddenly prominent issue of system. To him this contention was the essence of an opposition party; otherwise, it would just be a "flower vase" party serving as a foil. Therefore, Lu Hsiu-i, who is quite familiar with the rules of debate, both in sessions of the Legislative Yuan and in meetings of its Procedures Committee, regularly displays his special skill in making ingenious arguments, vigorously pursues and fiercely mauls his opponents, and "with justification raises hell." Because of his natural disposition to be optimistic and not bother about trifles, in his strongly worded criticisms he is both witty and jocular, and often puts the KMT legislators in a good mood and makes them smile. When he at times wrongly cites data or misuses metaphors, he excuses himself without being abashed in the slightest.

Moreover, what the members of DPP organizations most commend in him is his strict adherence to party and organization discipline. He heeds the collective movement when it charges forward and when it stops. Therefore, early in the morning and carrying a light breakfast, he rushes to the conference hall to engage in contention for the party and its organizations and to mount a close guard against any attempt by the KMT to sneak bills through the Legislative Yuan. Also, in the Procedures Committee, he takes positions that are "poles apart"; he speaks up whether he really has anything to say or not, and even puts parts of his speeches into English or French in order to "filibuster." But when there is a common understanding in the consultations between the two parties, he knows how to be moderate.

It is true that Lu Hsiu-i has several times recently engaged in "provocative" acts and caused physical clashes. Even many people who support him do not balk at calling into question his "overdone violence" and "excessive playfulness." In this respect he has candidly admitted that at times he has been "too quick on the trigger," but he has emphasized that he is not concerned about individual praise or blame, because "if an opposition movement has not matured and only has the image of one specific individual, then the movement is insignificant!" Actually, the origin of the DPP's contentiousness lies in the existence of polarized argumentation between different views. As for Lu Hsiu-i, it has now

been decided at a higher level, but not officially announced, to appoint him chief secretary of the DPP party organizations in the Legislative Yuan. After a year of practice and experience in the "examination hall" and on the "military drillground," the post of chief secretary, which emphasizes coordination, conformity, negotiation, and compromise, is bound to be for him a study in adjusting to another role.

On the other hand, for Lu Hsiu-i, who advocates a movement outside the system, to go into the system and then stand out in it would be inappropriate because he is a link to the movement. Therefore, even if there is a complete reelection of the National Assembly, the problem of what country to identify with will still not be solved, and it is doubtful that the operations of the National Assembly will be able to get on track and display their functions. Policies for the well-being of the nuclear, quadripolar, and weak organizations and other policies concerning the people's life are still the problems about which he is concerned. He says: "I'm not just a legislator; I'm also a member of the opposition movement!"

Tao Pai-chuan Discusses Unification Issues

91CM0122A Hong Kong PAI HSING [THE PEOPLE]
in Chinese No 228, Nov 90 pp 10-11

[Interview with Tao Pai-chuan (7118 4102 1557), member of the Taiwan National Unification Council, by Lu Chien (7120 7003), on 15 October 1990 in Taipei: "Tao Pai-chuan Discusses Unification Principles"]

[Excerpts] For the future of Taiwan and China, as well as to clear up misunderstandings of his political attitude, President Li Teng-hui established the "National Unification Council" in Taipei in October 1990. This attracted attention throughout society.

There are 31 members on the National Unification Council. We may say that the majority of them are temporarily elected. [passage omitted]

The fact that Mr. Tao Pai-chuan was on the list was certainly not because of his official position, but because of his strength of character and his knowledge, as well as because of his constant preoccupation with the issue of China's unification. I remember when I met with Mr. Hu Yaobang in 1985, I asked him if he knew of Tao Pai-chuan, and he answered, "Yes, I do." This shows that Tao Pai-chuan is well-known not only on this side of the Taiwan Strait, but on the other side as well. [passage omitted]

Mr. Tao made it clear that his discussion of the issue is purely personal, representing neither the government nor the National Unification Council. Hereafter, "Lu" refers to comments by Mr. Lu, and "Tao" refers to comments by Mr. Tao.

Lu: Mr. Tao, could you tell us something about the function of National Unification Council?

Tao: The important function of the National Unification Council is not simply to have a policy of common understanding or knowledge of the Communist Party, but also to have a common understanding within Taiwan. Presently there is a lack of common understanding internally, between the government and the people, and between party factions. Take the relationship between the two sides of the strait, for example: there is no common understanding concerning unification. Because of the absence of common understanding, both sides become suspicious and feel threatened. This will surely lead to conflicts. It would be especially disastrous if the unification efforts between the two sides turned into a cold war, and then into a heated conflict. Thus it is most urgent that we seek a common understanding among everyone, including a common understanding between the two sides of the Taiwan Strait. This is the function of National Unification Council.

Lu: What do you mean by a common understanding?

Tao: I think this means a common understanding of great political policies. Why is it that we didn't have great political policies in the past? During Mr. Chiang's era, there was the policy of "the Han and the bandits will not coexist" and "counterattack the mainland, save our fellow countrymen." We may call this a great political policy. However, it was bounded by the mutual defense treaty between Taiwan and the United States. We could hardly act on our own. The Communist Party claimed it would "wash Taiwan in blood."

Lu: Excuse me a minute, Mr. Pai-chuan. To my knowledge, the Communist Party of China has never proclaimed it would "wash Taiwan in blood." Their slogan was "We will definitely liberate Taiwan." Of course, once force is used, "washing Taiwan in blood" may not have been eliminated.

Tao: "Liberating Taiwan" simply means using force. Since the Chinese Communists joined the United Nations, and especially since they established diplomatic relations with the United States, their policy toward Taiwan has changed slightly. In 1979 they issued the "Memorandum to Taiwan Compatriots" and the "Nine Clauses of Ye." (Lu interrupts: There was also the "Six Clauses of Deng.") The memo proposed "three exchanges and four flows." We (Taiwan) have withdrawn from the United Nations, and the mutual defense treaty with the United States has been cancelled. As our tiny land confronts the Chinese Communists, we have no terms with which to negotiate. We therefore have our policy of the "three no's."

Lu: No contact, no negotiation, and no concession.

Tao: Actually, there are an additional "three no's," that is, no postal exchange, no navigation flow, and no commercial exchange. Altogether we have six no's. We close up tightly so as to barely protect ourselves. However, during Chiang Chingkuo's later period we began opening up. Postal exchange, trade, and indirect air traffic started. Contacts between people from both sides

developed in many areas, and coming to terms was not as hard as before. However, attitudes are still passive, and there is no way to break through.

Lu: Mainly it is that current leaders are indecisive.

Tao: Upon taking office, President Li Teng-hui put forth a clear proposal. It included three requests for the Chinese Communists. First, exercise democratic politics and a free economic system. Second, renounce the use of force in the Taiwan Strait. Third, based on the premise of one China, do not obstruct us from developing international relations, and allow us a definite space in the world. In this way we may start the "three exchanges and four flows" between the two sides, and build mutual understanding and trust. When the time is right, we may start unification negotiations. Li's proposal was very specific.

In my speech at the conference of the National Unification Council, I pointed out that this was an embryonic form, a general outline of our policy toward the mainland for more than 40 years. Unfortunately, there has been little domestic response to this policy. Furthermore, the policy has invited many negative remarks and criticisms. The Communists have showed no good will in their response, either. Nevertheless, I think Li Teng-hui's proposal is correct. I suggest that we formulate a "national unification program" based on his proposal. The program should be similar to the program for the "war of resistance and building the nation" during the war of resistance period, and be taken as the goal of the people.

Lu: What is the goal?

Tao: The goal is national stability and prosperity, and the people's happiness and health.

Lu: Is the goal still far away?

Tao: When we discussed unification eight years ago at Stanford, I proposed a three-phase theory: the present phase, the next phase, and the final phase. We should now modify the theory to be: the preliminary stage, or the cooperation period; the intermediate stage, or the coalition period; and the final stage, or the unification period. During the preliminary, cooperation stage, we still must follow the approach of gradual progress. For instance, regarding democratic politics, we can only ask the Chinese Communists to start with freedom of speech, including freedom of press: we may run newspapers on the mainland and invite them to do the same here on Taiwan. Second, there should be the freedom of assembly and association, which would reflect multi-party politics. In terms of economic freedom, we should ask the Chinese Communists to first practice a mixed economy and acknowledge private property, and that will be sufficient. If we can handle the preliminary stage well, naturally we can reach the intermediate stage.

Lu: Mr. Pai-chuan, your idea is sound, but with their mentality of dictatorship, the Chinese Communists will

not accept it. It will lead nowhere, but will remain an ideal. They will probably consider Mr. Li Teng-hui's three requests to be preconditions and reject them. Their request is for an immediate discussion. How should you respond to this?

Tao: Talking about "preconditions" would be considering preconditions for the "three exchanges and four flows," not preconditions for negotiation. I present my requests, and you present your conditions, and then we look at the possibility of compromising. As for an immediate discussion, we may send Vice President Li (indicating Li Yuen-ts'u [2621 0337 4662] and Secretary General Chiang (indicating Chiang Yen-shih [5592 1750 1102]) to Hong Kong to talk with them. What do we talk about? Is it all right to talk about "one nation, two systems"?

Lu: It would seem unlikely, considering public opinion on Taiwan.

Tao: Of course not. To tell the truth, unification cannot be achieved quickly. The reason lies not only in the government's reluctance to give up its vested interests, but also in the fact that we must consider the benefits of 20 million people. With the Chinese Communist's "one nation, two systems," the one nation part is true, but the two systems part is deceitful. The "Nine Clauses of Ye" states that they will send no military or other personnel to Taiwan. However, once the nation is unified under their flag, can you fail to obey their course? Needless to say, the people of Taiwan are opposed to Communism; however, the people on the mainland are also opposed to it. Even the Soviets and Eastern Europeans are opposed to it. Approving the "one nation, two systems" is equivalent to approving the rule of the Communist Party; approving the rule of the Communist Party is equivalent to approving the rule of Communism. It would be better for the Communist Party to suggest "one nation, one system," i.e., freedom and democracy, than to suggest "one nation, two systems." If that happens, we may talk with them.

Lu: Looking at the present situation, and considering the Chinese Communist's rigid way of thinking, mentality of dictatorship, and autocratic rule, is it possible to achieve unification without force?

Tao: I believe the outcome would be the destruction of both sides if force were used. Speaking of using force, conditions have not been right in recent years, and furthermore, the international environment would not permit it. The result of a future war would be that Taiwan would become scorched earth, ruins. Why would the Chinese Communists do this? I don't think the Communist Party would lose their senses to such an extent.

Recently in Hong Kong there has been a story that Deng Xiaoping will try to unify China within five years. Do you think there is any basis for this?

Lu: Yes, there is some basis for it. I interviewed Hu Yaobang in Beijing in 1985. When discussing the issue of Taiwan, he said, "We will be economically powerful in seven, eight, or 10 years, and we will have ways to modernize our national defense. The broad masses of Taiwan people want to come back. It is only a small group among you that refuses to return. We will have to use a little coercion on this group." What is coercion? Coercion means the use of force. Thus at that time the foreign media reported that Hu Yaobang was considering the use of force. In 1987, Hu Yaobang left office. The Chinese Communist's document number eight accused Hu of meeting Lu Jian and disclosing a national secret, stating that this was one of three major crimes. What was the secret? It was nothing but the intention to take military action against Taiwan. Seven or eight years from 1985 will be 1992 or 1993. A decade from 1985 will be 1995. In addition, some recent news from Beijing reveals that when Chen Yun met with personnel from the Commission of Science, Technology, and Industry for National Defense, he indicated that they had stockpiled so many missiles that it looked like they could only be used on Taiwan. All these signs show that it is not impossible that the Chinese Communists will use force against Taiwan in the next three to five years, particularly when the eight senior Chinese Communists think incessantly about unification with Taiwan.

Tao: The Chinese Communists have repeatedly talked about peaceful unification, and the leaders have said they can wait. If they now force Taiwan to unify with the mainland, without even any initial political democracy or economic freedom, isn't it clear that they are asking Taiwan to raise white flags and surrender?

Lu: We certainly won't do it.

Tao: Certainly we will not.

Lu: There is, however, the question of order. Should we go and discuss things first, and bring up this proposal in the discussion? Or should we first state our proposal, let them approve it, and then discuss things?

Tao: In my opinion, both sides should have no preconditions. We should sit down and talk first, and may present the proposal in the talks. They may also present their conditions. If we start talking now, we will still have cards to play. But the Chinese Communists insist that there can be no government-to-government discussions and that they must be party-to-party talks. Is there really a need for this? For instance, if we send Chen Li-fu [7115 4539 1133] or Sung Ch'u-yu [1345 2806 3842] to the talks, are the talks party-to-party or government-to-government? They represent Taiwan anyway. I am saying that the Communist Party should not incorrectly believe that Taiwan can be easily cowed or bullied. Taiwan would have been finished long ago if it had not been able to maintain itself in the face of intimidation.

Lu: As a matter of fact, Taiwan has weathered great storms.

Tao: Taiwan's existence follows its own road. Li Teng-hui's proposal is for unification, and for Taiwan.

Lu: But, according to the Chinese Communists, Li Teng-hui leans toward Taiwan independence. Do you think they are right?

Tao: No! Li Teng-hui still wants unification.

Lu: Currently there is no common understanding about unification in Taiwan. What should we do?

Tao: The National Unification Council was established in order to bring about a common understanding in Taiwan. This will be done by formulating the "National Unification Program." It is best if there is a common understanding on both Taiwan and the mainland. If they can discuss the issue of unification from the basis of democracy, then it may be a blessing for all Chinese people. Of course, this takes time. We cannot do this in haste, nor can we postpone it indefinitely. It is fortunate that we have now taken the first steps.

Limited Impact of Gulf War on Energy Supply

91CE0295A Taipei CHING CHI JIH PAO in Chinese
19 Jan 91 p 2

[Editorial: "Assessment of Middle East War's Effect On Our Economy"]

[Text] The war that broke out in the Middle East a few days ago will have a detrimental effect on the world economy. All departments of our government have plans for taking protective measures in advance. The plans have been announced so that people will understand that once the plans are implemented they will be effectively coordinated in order to avoid a temporary panic that would expand the detrimental effect. However, on the day the war broke out long lines of vehicles were forming at filling stations, some of which ran out of gasoline for latecomers, and this deepened people's fears. Everywhere people rushed to markets to buy the necessities of life, and some people even bought rice to hoard. This abnormal psychological state was mainly the shadow of the serious crunch during the first oil crisis, which remained fresh in people's minds. It is not known whether this oil crisis will be markedly different from the first one, but its detrimental effect will certainly not be as serious. We think that there needs to be further analysis and clarification in this respect. First of all, speaking of the effect on the world economy of the two oil crises, in the first one the oil produced by the Organization of Petroleum Exporting Countries [OPEC] accounted for half the world's production. The oil it exported amounted to about 90 percent of the oil of countries in the world that imported oil. Therefore, at that time OPEC could control the supply and price of oil on the international market. In the first oil crisis, the price per barrel rose from \$2 to \$11.65, a four-fold increase. In the second oil crisis, it rose to \$36, and the spot market price was more than \$40. Thus the crises had an extremely serious effect on the world economy. Before the first oil

crisis broke out the international economy was booming and demand was strong. Then the price of grain rose because of reduced output, and the grain crisis occurred with the oil crisis close on its heels. Adding fuel to the flames, it made the problem more serious. However, learning their lesson, various countries vigorously promoted conservation measures and encouraged improvements in energy utilization, with splendid results. In the three great economic powers—the United States, Japan, and West Germany—the results were especially notable. Over the past 14 years, these countries have enjoyed sustained economic growth. There has been almost no increase in their energy consumption, and the United States has even reduced its consumption of energy. Therefore, the energy dependence of some countries is now much less than it was at the time of the first oil crisis. On the other hand, after the rise in the price of oil, non-OPEC oil-producing countries vigorously increased their oil production, but the demand did not increase, and after 1982 there was a big drop in the price of oil. OPEC countries only accounted for a third of world production, and the production of Persian Gulf OPEC countries only accounted for a fifth. OPEC export supplied less than a third of the oil of countries in the world that imported oil. Obviously, OPEC's impact on the world economy was much diminished. Moreover, at the present time the supply of oil exceeds the demand for it. If the war is quickly decided, the general anticipation is that the price of oil will drop, this time to about \$20 per barrel. The big fluctuations in the price of oil on the international market at the present time are mainly the result of operations by speculators. On the first day of the war, the price of oil in London rose, only to turn around and suddenly drop, by \$12.2, to \$20.95 per barrel—obviously a "spot" effect.

Next, we can make the following four-point analysis of the effect on our domestic economy of the oil crisis touched off by this Middle East war and the effect on it of the first oil crisis:

First, speaking of the size of the rise in the price of oil, at the time of the first oil crisis the price of imported oil rose by four times, and in the fourth quarter of last year the average price per barrel of imported oil was \$30.1. This time, even if the price jumps to \$50 it will not be a doubling. Also, the duration of the rise was very short this time, and once the war stops the price will drop. If Japan and [South] Korea do not adjust their oil prices, our country cannot adjust its.

Second, the first oil crisis occurred suddenly, and large amounts of oil had not been stored beforehand. This time it had been long anticipated that a war in the Middle East would break out sooner or later. The 90-day oil reserve was increased to a 141-day oil reserve, an increase of 51 days. Even if the oilfields in Saudi Arabia were destroyed, the remaining oil reserves overseas could sustain supply for 20 days. The oil reserves that we recently purchased, for example, to make up for insufficient oil imported from Saudi Arabia, can supply oil for 80 days without drawing on the original 90-day reserve.

Third, before the first oil crisis occurred the domestic economy was booming, and the annual rate of increase in the amount of energy in supply was as high as 50 percent. Demand was strong. In addition, the cost of imported grains, such as soybeans, corn, and wheat, had risen by three or four times. During the unbridled rise in domestic prices at that time, the price of imported oil rose by four times, adding fuel to the flames. In 1975, after the prices of oil and electricity were adjusted upward in January, both wholesale and consumer prices jumped in February, each by 40 percent as compared to the prices in the September 1974, before the first oil crisis, and respectively by 64 and 61 percent as compared to the prices in February 1974. These rises greatly harmed the consumer, and so the rises remain fresh in everyone's memory. However, the present circumstances are completely different from those of the first oil crisis. The boom has subsided to a state of torpidity, there is a negative growth in the currency oil supply, demand is insufficient, and prices are fairly stable. Even if the domestic price of oil reflects the cost of import, it does not have the strength "to make a stormy sea stormier."

Fourth, the effect of our energy conservation over the past 10-odd years, although not like that of a highly industrialized country, has been to disperse energy sources. The proportion of oil in energy sources, from 72 percent in 1974, has now fallen to 53 percent. The proportion of oil in the gross volume of domestic production, which was 5.5 percent in 1974 and 12 percent in 1982, fell last year to 2.5 percent. Obviously, the domestic economy's dependence on imported oil has been greatly lessened.

Based upon the above analysis, even if the price of imported oil rises to \$50 per barrel, and all of the rise is reflected in the domestic price of oil, provided there is no "evil spirit" acting to cause a price rise psychology, domestic prices will certainly not rise as sharply as they did in the first oil crisis. Therefore, we hope that the people will be at ease in their minds, cooperate with all the measures taken by the government, and remain calm and steady in meeting the emergency. If they do so the price problem will not be too serious.

CETRA To Send Trade Missions to Burma, Vietnam

OW1102040291 Taipei CNA in English 0305 GMT 11 Feb 91

[Text] Taipei, Feb. 11 (CNA)—The China External Trade Development Council (CETRA) has decided to organize trade missions to visit Burma and Vietnam in April so as to tap trade potentials of these new frontiers for Taiwan traders.

If everything goes smoothly, CETRA said, it will be the first ROC [Republic of China] trade mission to visit Burma, whose trade with the Republic of China is still negligible.

The ROC has begun to reap a harvest in Vietnam, however, after years of efforts. Bilateral trade between the Republic of China and Vietnam is in a position to further expand as Taiwan manufacturers and firms have invested in the Indochinese country, CETRA added.

CETRA said it also expects to open a trade office soon in Ho Chi Minh City to help facilitate bilateral trade relations.

Trade Offices Planned in 5 African Nations

OW1602104691 Taipei International Service in English 0200 GMT 13 Feb 91

[Text] The Foreign Ministry has announced that it will establish at least five representative or trade offices in Africa this year. However, (Chu Ming), director of the ministry's African Affairs Department, who returned to Taiwan last Friday from a visit to Africa, has refused to release the names of the African countries in which the offices will be set up.

(Chu) said that the ministry has to be more careful about this business because of possible pressure from Beijing. However, (Chu) said his visit to Africa, which included stops at eastern, western, central, northern, and southern countries, was very optimistic. He said he met with the presidents of two countries and some cabinet ministers, and all were positive meetings.

Meanwhile, a high-ranking ministry official said on Monday that the countries in question may be the Central African Republic, the Ivory Coast, Kenya, Madagascar, Libya, and Zambia. The ministry is wary of announcing the names of the countries which may allow the ROC [Republic of China] to establish offices in them due to pressure from Beijing.

Tax Agreement Scheduled With Malaysia

OW2402142191 Taipei CHINA POST in English 21 Feb 91 p 6

[Text] The Republic of China [ROC] is scheduled to sign a general taxation agreement with Malaysia in early March, and is expected to strike similar accords with several other countries this year, a Finance Ministry official said yesterday.

Under the agreement, investors from the ROC and Malaysia can be exempted from double taxation in each other's territory, the official explained.

Representatives from the two countries will discuss the taxation agreement in a meeting slated to last from 24 February to 1 March.

As the two countries have already met several times before, a draft accord might be signed during the incoming meeting, the official predicted.

The agreement, he noted, will cover business income taxes, shipping taxes, dividends, and royalties.

If everything goes smoothly, Malaysia, following Singapore, will become the second country to sign such an accord with the ROC.

Preparations for similar agreements with other countries are also underway, the official continued. The United States could also sign a mutual tax exemption accord with Taiwan after a meeting this spring, probably in May, he added.

The official added that negotiations with South Africa have almost reached an agreement. "What we need is only a confirmation of the taxation agreement by the two sides," the official said.

The ROC will also meet with Belgium, the United Kingdom, Ireland, Denmark, and Norway in June to discuss the possibility of signing taxation agreements with these nations.

Contract Signed To Import Malaysian LNG

OW2002041591 Taipei CNA in English 0259 GMT 20 Feb 91

[Text] Taipei, Feb. 20 (CNA)—The state-run Chinese Petroleum Corporation has signed a 20-year intention agreement with its Malaysian counterpart to purchase 2.25 million tons of liquefied natural gas [LNG] annually, a CPC official said Tuesday.

The agreement was signed in accordance with the Executive Yuan's decision to import more liquefied natural gas for industrial use, he said.

CPC, which began last year to import 1.5 million tons of liquefied natural gas annually from Indonesia, plans to increase the annual imports to 2.25 million tons, he added.

Thailand Praises Government Decision on Workers

OW1902125191 Taipei International Service in English 0200 GMT 19 Feb 91

[Text] A high-ranking Thai labor management official stated on Monday that Thai and Taiwan authorities will cooperate to try and prevent any new unauthorized Thai laborers from coming to Taiwan and working illegally. However, the official stated that if illegal Thai workers in Taiwan are detained and forcefully repatriated by authorities here, Thailand will arrest illegal Taiwan workers in Thailand.

The Taiwan Government official said that the ROC [Republic of China] Government has already made regulations stating that if illegal foreign workers in Taiwan turned themselves in before the end of this month, they will be exempt from paying taxes and be treated leniently. Those who do not turn themselves into authorities, though, will meet with the penalty of the law.

Since Thailand guarantees safety for investment from Taiwan in that country and issues work permit to Chinese to work there, it hopes that the ROC will treat illegal Thai workers in Taiwan leniently.

The official said that the Thai Government is extremely pleased that the ROC is now formally allowing authorized Thai workers to legally come to Taiwan to work. He said that the Thai Government makes middlemen pay a hefty guarantee and gives each Thai worker round-trip plane ticket to make sure that Thai workers abroad will not run into any difficulties.

Overseas Chinese, Foreign Firms Increase Investment

OW1902014891 Taipei Domestic Service in Mandarin 2300 GMT 17 Feb 91

[From the "News and Commentary" program]

[Text] Since the beginning of this year, there has been an increase in investment in our country by Overseas Chinese and foreign businessmen. The scale of investment has also been larger than in the past. This is a good sign, according to the Ministry of Economic Affairs.

Investment projects by Overseas Chinese and foreign businessmen approved by the Ministry of Economic Affairs in January totaled more than \$120 million, up about 40 percent from the same period of last year. Overseas Chinese and foreign investment projects approved in the first half of February increased considerably, and the scale of investment was also larger. Among them are investment projects by Du Pont and (Kaomai), each exceeding \$10 million, aimed mainly at production of such high-tech products as semiconductor devices and jet engines. In addition, Japan's Sumitomo Kaisha has a \$30 million investment project to establish a Taiwan Sumitomo Company Ltd. in our country. It has agreed to submit a plan for selling its products back to Japan to avoid increasing our country's trade deficit with Japan.

According to the Ministry of Economic Affairs, investment by Overseas Chinese and foreign businessmen in our country amounted to \$2.2 billion last year, down 5 percent from the 1989 record. Judging from the statistics for the first one and half months of this year, however, our country's investment environment still appears to be rather attractive to foreign investors.

Trade Deficit With Japan Totals \$7.7 Billion

OW0902172591 Taipei CNA in English 1348 GMT 9 Feb 91

[Text] Taipei, Feb. 9 (CNA)—Republic of China [ROC] trade deficit with Japan totaled U.S. \$7.7 billion in 1990, an Industrial Development Bureau (IDB) statistics showed.

The IDB attributed the widening trade gap to a sharp decline in the export of textiles, footwear, umbrella, hats and rubber, plastic, and wood products.

ROC exports to Japan last year totaled U.S. \$8.34 billion and imports topped U.S. \$16 billion, leaving a trade deficit of U.S. \$7.7 billion, the statistics showed.

Scanners Expected To Take Larger World Market Share

*OW1402030891 Taipei CNA in English 0245 GMT
14 Feb 91*

[Text] Taipei, Feb. 14 (CNA)—Taiwan's scanner manufacturers, which already had 41 percent of the world market in 1990, are expecting even brighter prospects this year with personal computers becoming increasingly popular.

More than 20 manufacturers in the Republic of China on Taiwan produce desktop or hand-held scanners, including color and monochrome products.

Last year, they exported about 21,000 desktop color scanners, an eightfold increase over the previous year.

As to hand-held color scanners, four manufacturers have increased their annual capacity to 50,000 units although the product was only developed last year.

According to the manufacturers' estimates, the production value of desktop color scanners will reach U.S.\$78 million in 1991, up 88 percent from last year, while that of monochrome scanners will increase 23 percent to U.S.\$19.2 million.

The production value of hand-held color scanners this year is estimated to more than double to U.S.\$48.6 million and that of monochrome products to reach U.S.\$47.7 million.

Economy Expected To Rise 6.22 Percent in 1991

*OW2202162191 Taipei CHINA POST in English
14 Feb 91 p 6*

[Text] The domestic economy is expected to grow 6.22 percent in 1991 from last year's 5.29 percent, the Directorate General of Budget, Accounting and Statistics (DGBAS) forecast.

Per capita gross national product will reach U.S.\$8,619 this year, up from the U.S.\$7,997 registered in the previous year.

Annual growth for wholesale and consumer prices will be 1.4 percent and 3.9 percent respectively as international oil prices are expected to hover in the range of U.S.\$20-25 a barrel this year, DGBAS continued.

The economy hit a low when it grew only 4.07 percent in the third quarter, but it started to regain strength in the following quarter by growing 5.3 percent. The moderate expansion is estimated to last into 1991.

Other leading indicators, such as industrial production and exports also began to pick up from the fourth quarter.

First quarter private sector investment, which cropped 8.88 percent last year, is rising, though slowly. It will increase 2.64 percent in 1991 and will be a pillar to support moderate growth, DGBAS added. The decline in private sector investment, for the first time since 1986, had a direct bearing on the less-than-expected 5.29 percent economic growth.

Fixed investments by state-run enterprises totaled NT [New Taiwan] \$226 billion in the past year, a growth of 33.37 percent if compared with the corresponding period of 1989. The investment will slow this year to 13.41 percent.

Fixed investments by the public sector also rose a significant 26.63 percent to a total of NT\$224.6 billion last year. Similar investment is estimated to maintain at 26.23 percent in the coming year, though.

DGBAS warned that while the domestic investment willingness of the private sector remained in the doldrums last year, investment abroad surged, mostly in the China mainland and Southeast Asia.

Though the massive investment abroad will be instrumental in the internationalization of local companies, the local economy might be "hollowed out" at the same time, DGBAS pointed out.

According to a survey on the investment willingness of manufacturing sectors last month, leather, rubber, non-metal mines and vehicles have shown greater investment interest for the months ahead. But machinery, textiles, and electrical appliance equipment were reluctant to invest because of feeble demand.

Outward Processing Major Part of Export-Import Trade
OW1902211091 Beijing XINHUA in English
1438 GMT 19 Feb 91

[Text] Hong Kong, February 19 (XINHUA)—Some 62 percent of Hong Kong's imports from the Chinese mainland in the third quarter of 1990 was related to outward processing, according to the local census and statistics department.

On the other hand, some 60 percent of Hong Kong's total exports to the mainland was for outward processing.

The corresponding proportions in the third quarter of 1989 were 58 percent for imports and 56 percent for total exports.

Exports to the mainland for outward processing refer to the exporting of raw materials or semi-manufactures from or through Hong Kong to the mainland for processing, with the resulting processed goods being subsequently re-imported into Hong Kong.

Imports from the mainland related to outward processing refer to the importing of goods from the mainland of which all or part of their raw materials or semi-manufactures are under contractual arrangement exported from or through Hong Kong to mainland for processing.

From January to September last year, some 62 percent of Hong Kong's imports from the mainland was related to outward processing.

During the same period, some 58 percent of Hong Kong's total exports to the mainland was for outward processing.

The corresponding proportions from January to September 1989 were 58 percent for imports and 52 percent for total exports.

To provide a better understanding of the nature and importance of outward processing in the mainland by Hong Kong firms, the Hong Kong Census and Statistics Department has been conducting a sample survey as from the third quarter of 1988 to distinguish Hong Kong's exports to the mainland—both domestic exports and re-exports—into those which are for outward processing and those which are not.

The scope of the survey has been extended as from the first quarter of 1989 so as to segregate Hong Kong's imports from the mainland into those which are related to outward processing and those which are not.

From January to September 1990, some 102,181 million H.K. [Hong Kong] dollars (13,100 million U.S. dollars) of imports from the mainland were related to outward processing, showing an increase of 25 percent over the same period in 1989.

The value of total exports to the mainland for outward processing during the January-September period of last year was 64,828 million H.K. dollars (8,311 million U.S. dollars), 15 percent higher than that in the same period a year ago. [All figures as published]

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